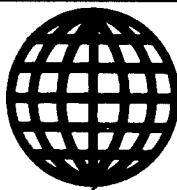


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5 JULY 1989



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Ideological Sources of Marxism Viewed
HK1806062289 Beijing RENMIN RIBAO in Chinese
26 May 89 p 6

[Article by Yu Wenlie 0151 2429 3525: "The Cultural Choice of Western Marxism"]

[Text] "Western Marxism" was an approach adopted by some Marxist followers in the wake of the failure of the revolutions between the 1920's and the mid-1970's in the developed countries in western continental Europe in applying Marxism in Western countries. It was a trend, or a tradition, that existed with special significance. Therefore, we suggest that it be handled fairly and from diversified Marxist standpoints, but not be criticized as something opposite to Marxism. Any attempt to separate Gramsci, Lukacs, Althusser, and a few communist leaders from this tradition, denounce the relationship between this tradition and bourgeois philosophies, sociology, and psychoanalysis, and disavow wholesale the Marxist views in this tradition is in itself incomplete.

The cofounders of Marxism established the general principles of Marxism. Lenin's theory of victory in one country and the victory of the October Revolution indicated that Marxism was becoming specific and beginning to diverge—the Soviet version of Marxism, the Chinese version of Marxism (Mao Zedong thought), and the Yugoslav version of Marxism emerged. These specific versions of Marxism, which differ from each other in style, were established by creatively applying and developing the general principles of Marxism under different historical conditions and on the basis of the different cultural ("culture" is here a broad concept encompassing, among other things, social systems and institutions), qualities of different peoples—in other words, by making Marxist cultural choices.

The development of Marxism toward diversity is not confined to socialist countries which have successfully seized it. It also includes the efforts made by aspiring people in capitalist countries in the contemporary world to explore other than Oriental ways of applying Marxism in transforming the societies in which they find themselves. Western Marxism represents one of such efforts. Of course, there is also "extensive diversity" within the Western of Marxism itself. We can divide the Western version of socialism into a Latin school and a German school, (?the Frankfurter Schule), by cultural characteristics. In addition, according to British scholar, (?Peres Anderson), there is also an Anglo-American Marxist culture, a latecomer and a version of communist Marxism which is ideologically related to the Soviet Union and is the "only adversary with combat strength ever encountered by the contemporary bourgeoisie" in Western Europe.

If we refer to the October Revolution, the Chinese Revolution, and other communist revolutions in other countries collectively as the "weapon-criticism" type of Marxism [wu qi pi pan de ma ke si zhu yi 2976 0892

2106 0445 4104 7456 0344 2448 0031 5030], we can also say that the Western version of Marxism has evolved into a "cultural-criticism" type of Marxism. Of course, all classifications are relative. The weapon-criticism types of Marxism is necessarily preceded and supplemented by cultural criticism. If one is not short-sighted, one will find that cultural criticism and its impact on backward social systems have unfathomably profound historical significance for awakening inert social consciousness and for the revival and development of nations. When conditions are ripe for revolutions, weapon-criticism will be used to overturn old societies and establish new ones. However, before the consciousness of potential revolutionaries becomes ripe, cultural criticism can awaken the consciousness of the masses.

As fate would have it, varied versions have emerged in the course of the dissemination and application of Marxism. That theory must be combined with revolutionary practice is the soul of Marxism. In practice, different nations digest and interpret the classical theory in different ways. Therefore, there are different versions of Marxism with different national characteristics. Since its birth about 100 years ago, Marxism has seen different eras. The choice of a special version of Marxism is dictated by the prevalent spirit of the times. This is what is meant by diversification of Marxism, which is an indicator of the rise and growth of Marxism.

Specifically, revolutions in the West are necessarily different from those of the East. The times when the safety of the human race is threatened by nuclear wars (this fact tells us why it is not easy to start violent revolutions nowadays) are very different from the times when wars could lead to revolutions. Gramsci pointed out: Successful "mobile wars" (short, rapid-pace revolutions) are made possible by Oriental national despotism. In the West, however, given its flexible, democratic parliamentarism, it is necessary to try gradually to seize the leadership over the "residential society [shi min she hui 1579 3046 4357 2585]." Today in the West, the questions of means, which forces to rely on, and the kind of post-revolutionary societies (the kind of socialist political structures and economic systems that are viable in the West) to establish must be comprehensively and thoroughly explored. Revolutions must not be exported. Therefore, it is necessary to allow people to freely explore, to recognize the positive significance of these explorations, and not to rashly condemn them to the opposite side.

This means that it is necessary to view "Western Marxism" from the viewpoint of national spirit and the spirit characteristic of the times. Revolutions one after another have met with setbacks, capitalist economies have been flourishing for a long time, parliamentary democracy is becoming increasingly deeply entrenched, and Marxist theoretical research is divorced from student movements, its foundation. Given all this, in Italy, where Europe's renaissance originated, among the Gauls, who have always been under the influence of the spirit of the

"free-French movement," and among the Germans, who have a speculative tradition and who are always immersed in contemplations about the relationship between subject and object, aspiring people have emerged one after another to diligently explore, along the Marxist line of thinking, "the subjectivity and emancipation of man," and bravely put forward socio-cultural criticisms; and this is precisely how cultural heritage affects Marxist social choice. If one says that "Western Marxist" studies represent a "pure culture" that is divorced from the economic foundation, and that British and American Marxists, as latecomers, lay special emphasis on the domain of economic and political structures, one implies in concrete terms that there are differences between the cultural heritages of the former group of countries and the pragmatic cultural heritages of Britain and the United States, respectively the oldest capitalist countries and the largest.

Western Marxist choices in relation to the times are revealed by the fact that the main themes of their explorations have invariably been the people's greatest concern of the time. In the 1920's, Lukacs, Gramsci, and other Marxists paid special attention to summing up the lessons learned from the failure of the revolutions in the West, to analyzing the structural similarities and differences between Eastern and Western societies, and to discussing, in light of the lessons learned, the ways in which revolutions should be started and conducted; from the early 1930's to the later 1940's, in view of the fact that Second International theorists had turned Marxism into a mechanical economic determinism and the depressed working class was predominantly discussing the question of subjectivity in Marxism, Reich, Fromm, and other members of the Frankfurter Schule concentrated their energy on studying psychological patterns and the structure of personality in order to supplement the analysis of political and economic system highlighted in classical Marxism with social psychology and analyses and to explore the relationship between psychological and social revolutions. Since the war and because of the prolonged economic prosperity, people's revolutionary consciousness has been kept at bay and their minds obscured by a materialistic consciousness. Therefore, Western Marxism, which is dominated by cultural philosophy, regards the "complete restoration of humanity" as the problem central to cultural criticism, in order to arouse people's revolutionary consciousness by means of daily living criticism and "cultural industry" criticism. Given the prolonged dormant state of the social revolutions in Western Europe, are these not ways in which Marxism can be combined with social realities?

Of course, the inherent "extensive diversity" within Western Marxism will not be overlooked if one regards it as one version of Marxism. Of the important figures affiliated to the Western Marxism tradition, some were closer to Marxism than others; some were communist leaders who had participated in proletarian revolutionary movements; and others were left-wing radical scholars at bourgeois institutions of higher learning. All ideological trends or organizations have left-wing, middle-of-the-road, and right-wing

participants and members. However, this does not affect their status as ideological trends or organizations. Actually, the ideas of a thinker or a Marxist are products of a constantly changing process.

Although we view this ideological trend or tradition as a branch of Marxism, we do not mean that we will not critically examine it. Criticism was at first something desirable. It means that through criticism we can pan gold. This is completely different from the practice of using the big stick on others, or regarding the target of criticism as a slain dog [si gou 2984 3699] during the Great Cultural Revolution. Criticism is mutual. Both criticism and countercriticism are allowed. Western marxism has its limitations and defects, and has also been distorted. It should be criticized in a historical way. The Soviet Marxism also has its mistakes, and must also be criticized. During the Great Cultural Revolution, Mao Zedong thought also took to evil ways. Must it not be criticized? In the course of criticism, it is important for us to engage in self-questioning and self-criticism. "Thinking of oneself as the only revolutionary," or "taking of oneself as the only Marxist" does not work. Comrade Mao Zedong once pointed out that there are various kinds of Marxists. Some of them are 90 percent Marxists, some are 80 percent, or 70 percent, and so on. Hence, we can draw a conclusion: the degree of mastery of the spirit of Marxism by different followers of Marx is different. But they share one common thing: they all belong to the category of Marxism. Who has actually done better in comprehending the essence of Marxism? This should be assessed by history. One cannot proclaim himself a genuine Marxist. In China, we understand and practice Marxism in light of our national spirit and historical development. Even if such exploration can be regarded as a correct Marxist line, it cannot be imposed on Marxism of other countries and nations which have their own characteristics. Otherwise, various countries will "think of themselves as the only Marxists," or negate and attack the patterns of other countries. This will wholly negate the existence of Marxism in the contemporary world.

Criticism is a multiangular mirror. When one is criticizing a historical fact, he might have different concepts of value in mind. Different theoretical starting points might generate different values of criticism. If we use the theory on materialism and dialectics which we understand as the standard for assessing Western Marxism, we will get nothing from the criticism. Proceeding from the principle of regarding criticism as a practice of panning gold, we can change our angle. If we focus our attention on the cultural background of the West, we will surely find out a lot of positive and desirable theoretical wealth in such a tradition. This is precisely the aspect where we must exert our great efforts to make exploration, because it is needed by the open and developing Marxism. To our regret, what we have done in this regard has still been far from enough.

Only by treating Western Marxism in light of our national spirit and the spirit of our times can we understand better the necessity and theoretical value of its

existence. There is no need for us to feel surprised at the relations between the ideological trends of Western Marxism and Western philosophy and sociology, or between such ideological trends and depth psychology. It is known to all that the establishment of Marxism is based on absorbing excellent historical and contemporary cultural wealth. Lenin developed Marxism. When he put forward his famous theory on imperialism, he accepted British economist Hobson's analysis of the fundamental economic and political characteristics of imperialism described in his works such as *Theory on Imperialism*, and so on. This is also the case with the development of the contemporary Marxism. It must not only absorb nourishment from the ideas of those thinkers before Marxism which Marx overlooked, but also excavate something new from the contemporary rich ideological treasure-house on an advanced scientific basis. For example, is psychological analysis not lacking in classical Marxism? Contemporary philosophy, sociology, and depth psychology of the West are the reflection of the times, and they also pay attention to pressing problems of the times. Although there are limitations in the world outlook and class viewpoints of these thinkers, we cannot settle the dispute by saying only that they are "reactionary." The links between the Marxist tradition of the West and social sciences have reminded us that the development of contemporary Marxism must particularly pay attention to the horizontal [heng xiang 2897 0686] ideological sources.

Student Leader Denounces PLA Crackdown on Tiananmen Square
*HK1106053189 Hong Kong SUNDAY STANDARD
in English 11 Jun 89 p 3*

[By Tonny Chan]

[Text] A student protest leader said on a tape sent to a television station from her hideout that the death of China's "fascist" government "is not far off."

In hiding in or around Beijing, Chai Ling was heard by Hong Kong television viewers last night as she told how students fled from Tiananmen Square seven days ago as the People's Liberation Army moved in.

Miss Chai said China's leaders "were covering up their conscience to lie, to lie the biggest lie in the world."

The student leader said she held the 27th army responsible for the slaughter, and described as "sick in heart and mind" the Chinese Government.

In an impassioned 30-minute recording smuggled out of China, the head of the Autonomous Students Union of Beijing Universities, thought to have been killed in the bloody crackdown, gave an account of her last moments in the square.

A post-graduate student in child psychology at Beijing Normal University, Miss Chai described on the broadcast on Jade channel of Television Broadcast how troops opened fire on workers who tried to stop soldiers entering the square and how soldiers removed bodies.

She said that before troops invaded the square early Sunday, students had taken an oath not to bow to pressure from "a small bunch of conspirators within the government."

But the troops were "insane," she said in her often tearful monologue.

"They opened fire on anyone who shouted a slogan, or anyone who simply held a brick in his hand," Miss Chai said.

"There were other colleagues who still harboured hopes over this government, this army, they thought they would only be arrested..."

"But tanks rolled over them, turning them into mincemeat."

But she did not mention the fate of her husband, Feng Congde and other student leaders.

The tape, according to TVB, was recorded by Miss Chai but the station did not say how they managed to obtain it.

The station said the tape was made on June 8.

Miss Chai said soldiers carted bodies away in trucks "including those not quite dead but who were smothered to death anyway on those trucks."

"Some say more than 200 were killed on the square and some say more than 4,000," she said.

"Beijing radio said troops came into Beijing to deal with riotous elements."

"Would you call children sitting hand-in-hand under monuments riotous elements?"

"The darkness will be going away, dawn is coming a true People's Republic should be born soon."

"Every Chinese should wake up. The death of the government of Yang Shangkun, Li Peng, Wang Zhen and Bo Yibo is not far off. Down with the fascists, long live the republic."

NATIONAL AFFAIRS, POLICY

JINGJI YANJIU on Dealing With Inflation
40060599 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 89 pp 3-10

[Article by the Inflation Study Group Under the State Information Center Research Institute and the Economic Research Institute of the Chinese Academy of Social Sciences, written December 1988; members of this Study Group include Li Layu 2621 2139 0068 (head of the group and writer), Liu Yongqiang 0491 3057 1730, Li Yunlin 2621 0061 2651 and Qin Hai 4440 3189 of the State Information Center Research Institute; and Zhang Shuguang 1728 2562 0342, Yang Zhongwei 2799 0112 0251, Fan Gang 2868 4854 and Zuo Dapei 1563 1129 1014 of the Economic Research Institute under the Chinese Academy of Social Sciences. Those who have participated in discussion include Mao Zurong 3029 4371 2837, Mu Huapeng 4476 2037 2590 and Miao Ning 5379 1337. This article was checked and revised by Wu Jiapei 3527 1367 1014: "Comprehensively Dealing With Our Country's Inflation"]

[Text] In the last few years, our country's inflation has become daily more serious and this has caused worries among people of all circles and attracted the attention of the people of the whole country. Dealing with inflation has become a focal point in improving the economic environment in the next 2 years. At present, there are many suggestions on ways of dealing with inflation and some of these, having been transformed into implemented policies, have scored certain results. How these policies are to be coordinated, how clashes are to be avoided and determining what price needs to be paid in implementing these policies are questions which have now been placed on the agenda.

Inflation is an extremely complex social phenomenon and constitutes a macroeconomic syndrome. It is insufficient,

when looking at ways to deal with inflation, to simply explain the phenomenon in terms of money volume and price levels. Likewise, it is insufficient to sum up inflation as a result of policy-making mistakes. It is important to proceed from various factors, including the economic structure, economic development and the relationship between these, analyze the various changes in macroeconomic flows and stocks, examine the elements and mechanisms in inflation and put forward plans for guarding against and dealing with inflation. Only if plans are laid down in this way will it be possible to have comprehensive coordination, internal harmony, and quantitative accounting and will ease of implementation be realized.

The Manifestations and Measurements of Inflation

1. The most direct symptom of inflation is that there is an open or hidden increase in the general level of prices. Our country's inflation has the characteristic of hidden inflation changing to open inflation and thus hidden and open inflation exist together.

At present, the common indicator used for measuring inflation is the general retail price index. This indicator mainly reflects the price level of consumer items and in our country it also reflects the retail price changes in the agricultural means of production. However, it generally does not reflect changes in the prices of means of production and services. Thus, it is certainly not sufficient to rely on the data provided by this index as a basis for dealing with inflation.

In order to make up the insufficiencies of the overall retail price index, we have adopted an implicit deflator index for national income and GNP (that is, national income calculated at current prices as a ratio of national income calculated at unchanging prices) to indirectly reflect the price changes in means of production and services, and thereby explain the changes in the overall levels of all prices.

Table 1. A Comparison by Sector of the National Income Implicit Deflator Index and General Retail Price Index
 Unit: Percent

	General Retail Price Index	National Income Implicit Deflator Index	National Income Implicit Deflator Index by Sector				
			Industry	Agriculture	Construction	Posts & Communications	Commerce
1978	100.7	101.4	100.5	104.0	101.7	100.0	100.8
1979	102.0	104.0	101.3	116.8	102.2	100.0	81.3
1980	106.0	103.5	100.0	110.1	109.7	100.0	100.2
1981	102.4	101.8	100.3	106.2	112.9	100.0	91.2
1982	101.9	100.0	100.0	102.2	94.0	100.0	82.3
1983	101.5	101.1	100.0	102.8	104.7	100.0	97.3
1984	102.8	105.3	102.5	103.7	105.7	112.0	133.5
1985	108.8	110.0	105.1	108.9	108.8	104.9	160.0
1986	106.0	103.9	103.1	105.2	108.1	103.1	100.4
1987	107.3	107.0	104.1	110.7	107.7	103.2	112.0

From Table 1 it can be seen that in the 4 years of 1978, 1979, 1984, and 1985, the implicit deflator index for national income was greater than the general retail price index, showing that in these years the price of the means of production grew at a higher rate than the price of consumer items. In the other years, the rise in the price of consumer items exceeded the rise in the price of means of production.

From the implicit deflator index for national income by sector, we can see that prices in the agricultural sector rose faster than those in the industrial sector, while the prices in the commercial sector began to rise rapidly from 1984. Compared with the general retail price index, the national income implicit deflator indices for the industrial sector remained quite small, while those for the agricultural sector were, except in 1986, all quite large. The above situation shows that agriculture is a major sector promoting the rise in the price of consumer items. Also, since 1984, the commercial sector has become a major sector in the promotion of price rises in consumer items.

Overall, the trends of change in the national income implicit deflator indices and the general retail sales indices have been consistent. By combining these two indices, we can directly reflect the changes in the prices of consumer items, but not including the changes in the general level of prices of the material products of services. We can also indirectly reflect the changes in the prices of the means of production.

The growth of prices of material goods is also manifested in an increase in the level of prices for services. This can be measured through looking at the GNP implicit deflator indices and the tertiary industry implicit deflator indices. The calculations are shown in Table 2.

By comparing the national income implicit deflator index with the GNP implicit deflator index, we can see that in the 4 years 1980, 1981, 1983, and 1986, the GNP implicit deflator index was greater than the national

	GNP Implicit Deflator Index	Unit: Percent Tertiary Industry Implicit Deflator Index
1978	100.0	100.0
1979	103.7	92.7
1980	103.6	105.0
1981	101.9	98.6
1982	100.0	96.3
1983	101.4	100.6
1984	104.9	112.3
1985	109.0	118.7
1986	104.8	104.5
1987	105.6	104.9

income index. This shows that in the above-mentioned years, the growth of charges in the service industry was higher than the growth in the prices of material goods. In the other years, the situation was the reverse.

The general retail price index, the national income implicit deflator index and the GNP implicit deflator index all have their advantages in reflecting changes in price levels. By combining them and using them together, it is possible for them to make up each other's deficiencies. Of the three above-mentioned indices, the measurement of the general retail price index is quite thorough and dependable, but it is not all-embracing. The other two indices are a little less dependable, but they have the advantage of being wide-ranging in scope.

2. The second symptom of inflation is manifested by the growth in the volume of money exceeding the growth of national income or GNP.

For the definition of money, we have adopted the usual form of dividing it into: M_1 , which is cash; M_2 , which is M_1 plus the deposits of enterprise and institutional units; and M_3 , which is M_2 plus other deposits. The annual speed of growth of M_1 , M_2 , M_3 as well as of national income and GNP since 1982 can be seen in Table 3.

	M_1	M_2	M_3	National Income	GNP	Unit: Percent GNP Implicit Deflator Index
1982	110.8	115.4	115.4	108.3	108.8	100.0
1983	120.7	115.2	117.3	109.8	110.2	101.4
1984	149.5	134.5	127.0	113.5	114.5	104.9
1985	124.7	118.2	125.9	113.1	113.0	109.0
1986	123.3	125.8	125.5	108.0	108.3	104.8
1987	119.4	118.1	121.6	110.5	110.6	105.6

From Table 3, we can see that the speed of growth in money and the speed of growth in prices were consistent with each other, with growth in money taking the lead and growth in prices following it. For example, in 1984,

the speed of growth in money clearly rose and then in 1985 there was an obvious rise in the level of prices. In 1985, the growth of money declined and following this, in 1986, the growth of prices declined. From Table 3, we

can also see that the speed of growth in money was clearly faster than the speed of growth of GNP. The differential between the growth in money and growth of national income (or GNP) was a direct factor stimulating an increase in the national income (or GNP) implicit deflator index.

3. The third symptom of inflation is manifested as the speed of growth of total demand exceeding the speed of growth of total supply.

We have determined the figures for total demand, total supply, and the differential between total demand and total supply from 1982 and provide these in Table 4. The annual speeds of growth in total demand and total supply are shown in Table 5.

Table 4

	Total Demand (1)	Total Supply (2)	Differential (1)-(2)
1982	4,663.60	4,210.70	452.90
1983	5,265.03	4,662.50	602.53
1984	6,587.87	5,408.90	1,178.97
1985	8,562.12	6,838.90	1,723.22
1986	9,745.37	8,010.20	1,735.17
1987	10,961.30	8,859.20	2,102.10

Table 5

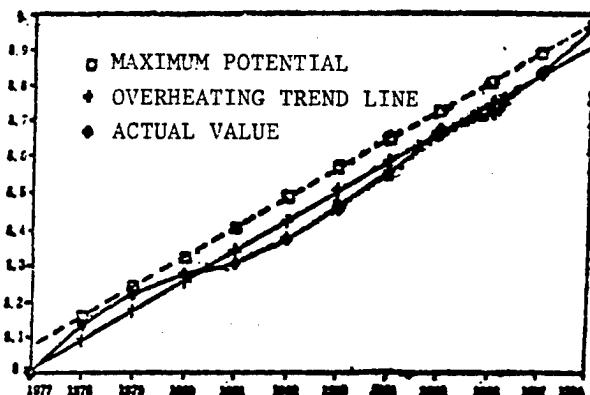
	Growth in Total Demand	Growth in Total Supply	Growth in Differential	National Income Implicit Deflator Index
1983	113.0	110.7	133.0	101.1
1984	125.1	116.0	195.7	105.3
1985	130.0	126.4	146.2	110.0
1986	113.8	117.1	100.7	103.9
1987	112.8	110.6	121.2	107.0

From Table 5 we can see that the growth in the differential was, in every year except 1986, greater than the growth in demand, and the growth in demand was greater than the growth in supply. The greater the growth of the differential, the greater the corresponding growth in the national income implicit deflator index. The supply-demand differential clearly forms a powerful pressure for price increases.

4. The fourth symptom of inflation is manifested as overheated economic growth.

Within China at present there is still no mature method of determining what constitutes overheated economic growth. We have, on the basis of the quantitative method of measuring economic prosperity, which was spread and utilized in the 1970's in FRG, Britain, France, and the United States, and revising it in accordance with China's actual conditions, formed an analytical method for determining whether or not our national economy is overheated. We

have, on the basis of this method, determined the situation of economic growth in our country in recent years and depict this on the following graph.



The straight line on the graph shows the overheated trend line of economic growth. If actual output value is higher than this trend line, it means that there is economic overheating. The dotted line shows the maximum potential of economic growth. How close the actual output value approaches this line reflects the degree of economic overheating. In this way, based on the overheating trend line and the maximum potential line, we are able to provide a numeric determination for the situation of economic overheating. On the graph, the actual output values in 1978, 1979, 1980, 1985, and 1987 were all above the overheating trend line.

2. The Factors in and Process of Inflation

There has been much discussion in the country about the causes of inflation. It is ascribed to the fuzziness in property rights divisions, the plurality of interests entities, excessive issue of money, cost-push factors, poor economic results and so on. Some of these factors, such as excessive issue of money, do have a widespread effect on inflation in all countries. However, some other factors, such as the fuzziness of property rights divisions are specific characteristics of the process of reform of the economic structure in a socialist state. In looking at our country's inflation, apart from studying the general factors, we need to put efforts into studying specific factors. Only thus will we be able to find definite targets and be able to formulate effective anti-inflation policies.

We can analyze the specific factors and development process of our country's inflation from two levels—the microeconomic and the macroeconomic.

At the microeconomic level, property rights divisions are hazy, there are plural interests entities and the economic results of enterprises are poor. These factors have stimulated, in our country's primary distribution, the trend towards stressing consumption and slighting accumulation. This has created a hot-bed for producing inflation in our country.

In the existing enterprises owned by the whole people, there is no definite owner to whom the property rights belong and enterprise activities lack a self-restraining mechanism. Theoretically, as the ownership rights over the enterprises' fixed assets belong to the state, and the enterprises only have use rights, they have no responsibility in terms of investing in fixed assets. Thus, in terms of their own interests, they lack the enthusiasm to collect funds for investment in fixed assets. Seen in terms of practice, under conditions where property rights divisions are not fixed, using profits for investment and thereby converting them into state assets is not as desirable as dividing these profits among individuals for consumption. This satisfies the demands of the staff and workers and thereby motivates their enthusiasm. This is the only rational choice for enterprises. As to funds for fixed-asset investment and technical transformation, enterprises naturally do all they can to obtain them from the financial administration and the banks. Some policies, which appear at first sight to be very rational, change their form and lose their shape in the distorting mirror which is formed by the fuzziness of property rights divisions. For example, after the system was changed from where enterprises receive their circulating funds as allocations to where they receive them as credit, enterprises not only sought more circulating funds on credit from banks, but also distributed the enterprises' own circulating funds to their staff and workers to use, making up the shortfall by further credit applications to the banks. This further increased the burden on the banks. Although this phenomenon is related to the low interest rates for credit, the fuzziness of property rights divisions is also a major contributing factor.

The situation which has arisen, whereby the fuzziness of property rights divisions has led to enterprises, in their primary distribution, stressing consumption and slighting accumulation, has been further strengthened by the plurality of interests entities. The state, localities, departments, enterprises and staff and workers all have their own relative interests and in their efforts to protect their relative interests, it is inevitable that some contradictions and friction will occur. Of these, the contradiction between the state and enterprise is a good example. The state, in order to protect the long-term interests of the people, requires that enterprises hand up a part of their profits. The funds thus acquired are used for financial expenditure. Meanwhile, the enterprises, proceeding from their partial interests, do their best to retain as much of their profits as possible. Thus, the situation has arisen whereby for every policy measure there is a countermeasure. For example, when deciding the enterprises' contact base figures and the proportion of excess profits which can be retained, a repetitive, "see-saw battle" occurs between the state and enterprises. The result of this "see-saw battle" is often that the enterprises get what suits them.

The result of the composite roles of the fuzziness of property rights divisions and the plurality of the interests entities has been that the proportion of primary distribution constituted by the income of residents has continually increased. On the basis of this situation, we have determined specific numeric values and present these in Table 6.

Table 6

Unit: Percent

Year	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Proportion of residential income to national revenue in primary distribution	72.1	69.9	73.5	78.2	80.3	81.8	81.3	82.3	84.4	85.2	82.6

In a situation where the proportion of income of residents in primary distribution has continually increased, the increase in the labor productivity of enterprises has failed to keep pace with the growth in residents' income. Under the current system, although the internal pressure for enterprises to engage in the improvement of their technological level is higher than under the traditional system, the degree of technical renewal and the degree of growth in labor productivity have far from met the needs of national economic development, and we are in an extensive operational situation where there is high input and low output. This has caused the supply-demand contradiction in the market to be further exacerbated.

It can be seen that the fuzziness of property rights divisions is a basic factor in the irrationality of the primary distribution structure. This factor, in a situation where there is a plurality of interests entities and enterprise economic results are poor, will inevitably lead to a situation of demand inflation. If our macroeconomic policies cannot effectively restrict this demand inflation, it will change into actual currency inflation.

Seen from the macroeconomic level, demand inflation develops through the financial administration and the credit system to become currency inflation. In the primary distribution, enterprises' income is fixed. In a situation where enterprises are responsible for their own profits and losses and the government does not give subsidies, the staff and workers' income cannot be issued in excess of the limits. If there was no role of redistribution, then even if demand was excessive, it would have a material guarantee and would not give rise to inflation. It would only lead to a situation where enterprises' development lacked stamina and long-term interests were harmed. First, under the role of redistribution, the situation is different. First, the financial administration, in order to guarantee the long-term interests of the people, must invest in some basic and strategic engineering projects for the national economy. This guarantees the development stamina of the economy. In addition, in order to support the high-speed development of the national economy, the financial administration will also expand investment in other industries. In the primary distribution, when the income of residents constitutes

too large a proportion, the income of the financial administration is relatively reduced. Thus it is difficult to avoid a situation where financial expenditure is greater than revenue and deficits arise. In a situation where credit cannot be relied upon to make up the deficits, it is inevitable that there must be over-drawing from banks. Further, in order to guarantee the speed of economic development, the banks will be continually providing great amounts of credit to enterprises. When the amount of credit exceeds the amount of their deposits, there will be a need to issue money to make up the shortfall. Thus, excess money will appear. When money is created to balance the credit expenditure of banks, inflation will become a reality.

We can see that, on the macroeconomic level, the financial administration and credit are the two general sluice gates of the national economy. The government can use these two general gates to prevent demand inflation changing into currency inflation. At the same time, the state can also use these two general gates to utilize the methods of deficit financing and issuing more money, and thereby covertly take back from the people's hands some money to use in construction. However, in such a case, inflation will be inevitable. In brief, in facing the reality of demand inflation in the national economy, the state still has quite a scope for choice. It can raise interest rates on deposits and thereby transform some of the consumption demand into investment demand, so as to change the situation where consumption and accumulation in primary distribution are irrational. Or else, it can rely on financial deficits and issue more money, to covertly draw some money back from the people, for use in construction. Or else, it can adopt a tight policy for both the financial administration and the banks and, paying a price in terms of the speed of economic development, stabilize market prices. These can be considered to be the three major hot-points in discussing the formulation of economic policies.

3. Dealing With Inflation and the Price Which Has To Be Paid

Our country's inflation has mainly been created by excessive overall demand and the lack of accord, both in terms of scale and on the structural level, between consumption and production. Thus, in dealing with inflation, the first task is to bring down the excessive overall demand. At the same time, there is a need to readjust the industrial structure and to guide the trend of consumption, so that a general harmony can be achieved between consumption and production. There are many ways to push down overall demand. The major of these are controlling financial expenditure, tightening up on bank credit, raising the interest rates for deposits and credit, increasing tax rates and so on. Apart from this, in respect to the overall demand and potential demand (that is, surplus purchasing power) which has already

been formed, methods such as selling large quantities of gold, selling public housing, issuing shares and bonds and issuing treasury bonds can be adopted. In this way, part of this demand can be changed into financial income and production expenditure. This will alleviate the supply-demand contradiction in the market and hold down the growth of inflation. As to the readjustment of the industrial structure, we should mainly adopt a gradient policy. For enterprises which have good sales avenues for their products and which have good economic results, preferential profit rates and tax rates should be instituted, and they should be given priority in the allocation of raw materials, fuel, and electric power, so that their development is promoted. For enterprises which have poorly-selling products and poor economic results, the profit rates and tax rates should be appropriately raised, so as to limit their development. When necessary, measures involving closing down, stoppage, merger, and conversion of enterprises might also be adopted, so as to reduce state losses and achieve optimization of resource deployment.

At present, the most important question we have to resolve is how to ensure that the above-mentioned measures are harmonized and coordinated, so that they form a program for dealing with inflation which can be both quantitatively operated and controlled by levels. We should also think about the cost which has to be paid in implementing such a program. In order to resolve this problem, on the basis of the factors in and process of inflation detailed in the above sections, we need to develop an inflation model which is centered on the gap between total supply and total demand and which has financial expenditure, bank credit, interest rates, import volumes, and export volumes as control variables. This model is able to successfully simulate the situation of price changes in our country from 1977 to 1987 (of these years, 1987 is an extrapolated test of the model). The maximum error for the model is 2.4 percent and the error for the majority of years is less than 1 percent. We can use this model to analyze our country's anti-inflation programs, to assess the results of implementation of policies and to determine the price which has to be paid in implementation.

In accordance with the demands of the central task in the next 2 years to deal with inflation and improve the economic environment, we have used the model to simulate three anti-inflation programs. The first program is one which uses a fairly relaxed cutting-back policy. Its main characteristics are the speed of growth of economic expenditure will be the same as in the last few years, at about 18 percent. Bank credit will be slowed and the increase in credit will be about 200 billion yuan. Interest rates will be similar to those in 1988 and the speed of growth in imports and exports will be generally the same as in 1988. The simulated results of the program for 1989 are as follows:

Amount of National Income Produced (at 1988 unchanging prices) (100 million yuan)	Total Demand (100 million yuan)	Total Supply (100 million yuan)	Supply-Demand Differential (100 million yuan)	Level of Prices (National Income Implicit Deflator Index) (percent)
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11,147.9	13,828.9	11,347.9	2,481	120
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From the above table, we can see that if we adopt this program, the speed of growth in prices in 1989 will be higher than the rise in 1988. In the increase in prices, the inflationary factor is anticipated to constitute 10 percentage points. The differential between supply and demand will be 248.1 billion yuan, 51 billion yuan up on the 197.1 billion figure for 1988.

If we adopt this program, the national income in 1989 will be 1,114.8 billion yuan, up 10.8 percent on the figure for 1988 (calculated at 1988 unchanging prices) and total demand will be 1,382.9 billion yuan, up 13 percent on

1988. That is to say, this program will only restrict the continued growth of inflation, while 1989 price levels will be higher than the 1988 price levels.

The second program is one where the cutting back will be of a medium degree. The main characteristic will be the speed of growth in financial expenditure will clearly decline, and will be about 9 percent, the increase in bank credit will be 160 billion yuan, while interest rates and import and export volumes will remain approximately the same as in the first program. Under the second program, the simulated results for 1989 will be as follows:

Amount of National Income Produced (at 1988 unchanging prices) (100 million yuan)	Total Demand (100 million yuan)	Total Supply (100 million yuan)	Supply-Demand Differential (100 million yuan)	Level of Prices (National Income Implicit Deflator Index) (Percent)
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11,120.7	13,258.5	11,320.7	1,937.8	117
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The above table shows that if the second program is adopted, the speed at which prices increase in 1989 will be approximately the same as in 1988.

The results of implementing this program will be that national income produced will be 1,112.1 billion yuan, an increase of 10.5 percent, while total demand will be 1,325.8 billion yuan, a growth of 8.7 percent.

The third program is one which involves heavy cutbacks. Its main characteristic will be financial expenditure will be 268.8 billion yuan, bank credit will be reduced by 60 billion yuan and interest rates and imports and exports will be approximately the same as in the first program. The results of the simulation of this program for 1989 are shown in the following table.

Amount of National Income Produced (at 1988 unchanging prices) (100 million yuan)	Total Demand (100 million yuan)	Total Supply (100 million yuan)	Supply-Demand Differential (100 million yuan)	Level of Prices (National Income Implicit Deflator Index) (Percent)
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10,843.2	9,993.7	11,042.7	1,049.5	101
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This program can ensure that prices in 1989 will remain relatively stable. However, the price which must be paid to implement this program is that the speed of growth in national income will fall to 7.8 percent, total demand will see negative growth of about -18 percent, and its inertia will seriously affect the development of the national economy in the future.

two. It will not cause the economy to go into a slide and will not seriously affect the standard of living of the people. At the same time, it will be able to ensure that the rise in prices will be clearly lower than that in 1988. If on this basis, consideration is given to further expanding imports, 1989 prices will fall further. Our simulated results are as follows:

Growth in Imports: (RMB)	20 billion yuan	50 billion yuan (RMB)
Price index:	116 percent	114.4 percent

The above three programs provide a reference system for cutting-back policies in 1989. From this, we can estimate the relationship between the degree of cutting-back and the degree to which prices will come down. We can also estimate the cost which will have to be paid for the cutting-back. Thus it provides reference for deciding an appropriate degree of cutting-back.

At present, our foreign exchange reserves are very small.

We believe that it would be quite appropriate to determine the degree of cutting-back on the basis of program

Thus the reality of expanding imports in the near-term is very limited. While obtaining foreign loans to increase imports will allow prices to be kept down, it will add to the heavy debt burden. We believe that, in respect to the method of using imports to keep prices down, while it

will have a definite effect, it needs to be used in accordance with our capacity. We should not employ this method blindly.

On the basis of program two, raising interest rates is another way of having prices continue to fall. If the interest rate is raised five percentage points, the price index will fall to 114.6 percent. If the interest rate is raised 10 percent, that is the actual interest rate will be zero, the price index will decline to 112 percent. Obviously, the raising of the interest rate has a very clear role in checking inflation. Seen from the long-term, while raising the interest rate will have a beneficial effect by turning some consumption funds into production funds and thereby raising the level of supply, following the raising of interest rates on deposits, credit interest rates will also rise. Enterprises have to include interest payments in their costs and this will in turn force up prices. Thus, while raising interest rates will on the one hand be beneficial to checking inflation, on the other hand it will promote an increase in prices. Thus, the raising of interest rates needs to be done very carefully and prudently. Of course, our country's present interest rate level is a negative interest rate and it is necessary to raise the actual interest rate to above zero. However, this will not be easy to do in the near term and will require a process over time.

If, on the basis of program two, we raise interest rates five percent and at the same time increase imports by 20 billion yuan, the combined effect will be to keep the price index down to 113.4 percent. This will basically achieve the goal of reducing the rate of increase in prices.

On the basis of adopting a policy of dual tightening of finances and credit, we can stream total demand, so that latent demand is transferred by means such as selling public housing and gold to the masses, and issuing state enterprise or collective enterprise shares. We can also freeze a part of the financial income thus received and not employ it. All these measures can effectively keep down the level of overall demand, reduce the differential between total supply and total demand and thereby reduce inflation.

Although reducing total demand will be able to effectively hold down inflation, it will not provide a basic solution for inflation. This is only a short-term contingency policy. If we want to basically solve our country's inflation problem, we need to coordinate medium-term and long-term policies. That is, we have to start exploring in terms of the two areas of the economic structure and the industrial structure.

Seen in terms of the economic structure, on the micro-economic level, the key to controlling excess consumption demand lies in resolving the problem of property rights divisions and in putting in order the relationships between the various interests entities, so that they play a restricting role over each other. The resolution of these problems should become the main orientation of attack

in the reform of the economic structure in future. We believe that the key problem related to inflation at present is that the handing down of power to, and allowing retention of profits by, enterprises has exceeded normal limits. When enterprises still lack self-restraining mechanisms, handing down excessive power to enterprises, will stimulate short-term activities by the enterprises and bring economic chaos. At present it is important to effectively control the amounts the enterprises distribute as bonuses and other non-wage expenditure. Changing the current practice by which bonuses are linked to output value and entered in costs, and instead having bonuses linked with profits but not included in costs will be beneficial in alleviating consumption inflation. As prices have not yet been put in order, the linking of bonuses and profits will result in some enterprises, which have high work efficiency but whose products have low planned prices, suffering losses. For these, the government could set down bonus levels on the basis of raising enterprises' labor productivity. In this way, not only will consumer demand be kept down, but it will also be possible to prevent costs from stimulating inflation. When the contract system was instituted back in 1982, the above-mentioned method of controlled issue of bonuses was trial-implemented. Later, when power was handed down, although this method existed in name, it did not exist in fact.

Seen in terms of the readjustment of the industrial structure, we note that in the primary distribution, consumption occupies a major proportion, which requires that the production structure stresses light industry. However, in redistribution, production constitutes a major proportion, which requires that the production structure stresses heavy industry. These two objective requirements are not in harmony and this is a major factor in the irrationality of our country's industrial structure. It is also the source, in a situation where total demand is excessive, of structural inflation. In order to deal with inflation, the readjustment of the industrial structure so that production accords with consumer demand, is extremely necessary.

In the readjustment of the industrial structure, a gradient policy can be adopted. In a situation where there is a dual tightening of finances and credit, enterprises which have sales avenues for their products and have quite good economic results should be given support. In particular, support should be given to agriculture and light and textile industries. In the last few years, there has been a decline in investment in agriculture as a percentage of total investment. From a figure of 6.6 percent in 1981, this fell to 3.1 percent in 1987. The investment in light industry as a percentage of total investment has also fallen from 9.8 percent in 1981 to 7.4 percent in 1987. Meanwhile there has been a rise in investment in heavy industry, from 39 percent of total investment in 1981 to 43.5 percent in 1987. This resulted in an already irrational industrial structure becoming more irrational. In the consumption by our country's residents, the consumption of food and clothing commodities constitutes about

70 percent of livelihood expenditure. The strengthening of investment in agriculture and light and textile industries and increasing the supply capacity of agricultural products and light and textile industry products will allow the purchasing power of residents to be drawn in and will allow the prices of major commodities which have a major effect on the people's lives to be kept down.

In the readjustment of the industrial structure, coordinated financial and credit policies will need to be formulated. In the financial policies, apart from considering which industries should be given priority financial support, there should be preferential tax rates instituted. These will need to be coordinated with preferential credit interest rates in bank credit policies, so as to counter the negative effect which the present pricing system has on the industrial structure. The State Planning Commission could, in accordance with the demands of structural readjustment, draw up a list of industries to be given preferential support, together with a sequence in which they should receive this, and provide this to financial administrations and banks. The financial departments and banks will then be able, in accordance with this list, to consider preferential tax rates and preferential interest rates for relevant enterprises under these industries.

In addition, in the readjustment of the industrial structure, we should support those industries which earn foreign exchange through exports. Considering that after 1990, our country will face a credit repayment peak, it is very necessary to now strengthen enterprises which earn foreign exchange through exports. Otherwise, inflation, coupled with the heavy debts will put our country's economic development in an extremely disadvantageous position.

State, Market, Enterprise Links

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[Article by Wei Jie 7614 2638, edited by Yang Wenyu 2876 2429 3768: "Thoughts on the New Mechanism by Which 'the State Regulates the Market and the Market Guides the Enterprises'"]

[Text] The party's 13th Congress officially summed up the new economic movement mechanism as one by which "the state regulates the market and the market guides the enterprises" and took this as the target model in the reform of our country's economic movement mechanism. Although the majority of people have not raised objections to this, there are still many differences, and even serious divergences, on many questions related to the meaning, nature, and role of targets of this new economic movement mechanism. This article intends to discuss only a few of the questions which have elicited major debate.

I. The Dual-Direction Functional Process of the New Mechanism by Which "the State Regulates the Market and the Market Guides the Enterprises"

When people talk about the function of the new mechanism by which "the state regulates the market and the market guides the enterprises," they often only pay attention to the unidirectional regulation of "the state with respect to the market and of the market with respect to the enterprises" and they do not look at the rectification and conditioning roles that "the market plays with respect to the state and that enterprises play with respect to the market." Actually, the function of the new mechanism by which "the state regulates the market and the market guides the enterprises" is dual-directional:

First, seen in terms of the relationship between the state and the market, the market is subject to the state's regulation, but at the same time, also counteracts in response to the state's regulation. That is to say, with respect to the state's regulation, the market is not merely a passive recipient, but also plays a role in rectifying the state's regulatory activities. This means that the state's regulation of the market must objectively consider the internal laws of movement of the market mechanism and must continually study feedback goals and measures, so as to facilitate dynamic maintenance, development, and correction of the original regulatory targets and measures. Thus, we can sum up the relationship between the state and the market as one where "the state regulates the market and the market corrects state regulation."

Second, seen in terms of the relationship between the market and enterprises, the enterprises are subject to guidance by the market and also have a counteracting role in terms of the market. When market signals truly indicate supply-demand relationships and the market mechanism is able to provide correct guidance to the market, enterprises are able to comply with market guidance. However, when the market provides mistaken guidance to enterprises, enterprises will deviate from or even go right against market guidance and this will play a correcting role on guidance by the market. Thus, the relationship between the market and enterprises should be summed up as: "The market guides the enterprises and the enterprises correct market guidance."

It is precisely because the function of the new mechanism by which "the state regulates the market and the market guides the enterprises" is dual-directional that this new mechanism movement requires the following: 1) At the same time as establishing a mechanism by which the state regulates the market, it is necessary to establish a mechanism by which the market corrects state regulation. 2) At the same time as establishing a mechanism by which the market guides enterprises, it is necessary to establish a mechanism by which enterprises rectify market deviations.

II. The Functional Focus of the New Mechanism by Which "the State Regulates the Market and the Market Guides the Enterprises"

The functional goal of the new mechanism by which "the state regulates the market and the market guides the enterprises" is the maintenance of a balance between total supply and total demand. When people talk about realizing this goal, they generally feel that suppression of total demand is a temporary solution and that promoting total supply presents a permanent solution. They thus place the functional focus of the mechanism on promoting supply. Actually, this view, which sweepingly holds that suppressing total demand is a temporary solution and that promoting total supply is a permanent solution, is not really appropriate. As to whether the suppression of total demand or the promotion of total supply presents a permanent solution, we need to look at the factors that give rise to demand inflation. Generally, there are four major types of total demand inflation:

The first is the demand-push type of total demand inflation. That is, under conditions where supply rises normally to its maximum, total demand exceeds the possibility of total supply increase under existing production capacity conditions. This results in total demand exceeding what total supply can bear, thus producing a major disparity between total demand and total supply. As far as dealing with this type of total demand inflation is concerned, the suppression of total demand is a permanent solution. The key lies in firmly controlling the issue of money, dealing with money inflation and concurrently rectifying market order. This will reduce the promotional effect that market disorder plays on demand inflation.

The second type is structural-type total demand inflation. That is, seen in terms of the relationship between total supply and total demand, there is chaotic interlocking between the demand structure and the supply structure. The supply-demand relationships of various commodities are manifested as demand inflation, while the supply-demand relationship of some other commodities are characterized by insufficient effective demand. However, overall, this is seen as demand inflation. In dealing with this overall demand inflation, the suppression of total demand and the promotion of total supply are both permanent solutions. The specific measures to be adopted are: On the one hand, through guiding the flow of demand, the structural relationship between demand and supply can be harmonized. On the other hand, through readjusting the industrial structure, the supply structure and the demand structure can be made to accord with each other.

The third form is demand inflation characterized by deficient supply. This means that while demand growth is normal or even lower than the normal rate of growth, and it does not exceed the capacity of existing production capacity, the total supply side fails, for some reason, to fully utilize existing production capacity, or it even

experiences a drop in production. In such a situation, it is difficult to provide corresponding effective supply in response to growth in demand. Thus, with such conditions, the permanent solution lies in promoting total supply. The major avenues for doing this are to reform the ossified structure that is fettering the growth of effective supply and to raise production enthusiasm and economic efficiency of the workers.

The fourth type is dual-directional total demand inflation. This means that total demand inflation is a result of both overheated growth in demand and a failure of the supply side to fully utilize its effective supply capacity. The excessive growth in demand and insufficiency of total supply combine to form total demand inflation. In such a situation, suppressing the growth in total demand and promoting the growth of total supply provides the permanent solution. The major way to deal with this, under the precondition of reducing investment to the lowest possible level or of not investing at all, is to increase supply by bringing into play and tapping existing production potential. In this way, it will be possible to guard against the situation where encouraging supply stimulates demand inflation.

The various above-mentioned types of total demand inflation all exist to differing degrees in our country. They combine, which results in our facing multisyn-drome demand inflation. Thus, under the current conditions in our country, the suppression of total demand and the promotion of total supply are both permanent solutions. This demands that we adopt a comprehensive method of dealing with the problem so as to guard against and eliminate the side-effects that would occur by using individual measures to deal with the problems. Not only is it necessary, when promoting an increase in total supply, to guard against giving rise to more serious total demand inflation, but we also have to guard against a situation whereby, in suppressing total demand, we harm supply, harm new systems already established, harm development of the market, and harm the normal operation of enterprises.

III. The Basis of the New Mechanism by Which "the State Regulates the Market and the Market Guides the Enterprises"

In the theoretical circles of our country, there exist different views on the basis of the new mechanism by which "the state regulates the market and the market guides the enterprises." Two opinions have been quite influential. One view sees the new mechanism by which "the state regulates the market and the market guides the enterprises" to be determined by the socialist economy. The comrades who hold this view believe that a socialist economy is a planned commodity economy and that state regulation of the market reflects the demands of a planned economy, while the market guidance of the enterprises reflects the demands of a commodity economy. Thus, the mechanism by which "the state regulates the market and the market guides the enterprises" can

only be formed and can only bring its role into play in a socialist planned commodity economy. Another view sees the mechanism by which "the state regulates the market and the market guides the enterprises" as being determined by a mixed economy. The comrades who hold this view believe that the market is the main form of linkage between the diverse economic components that are included in a mixed economy. Thus, the market forms a focus that guides the economic activities of the various economic components. However, as the state-owned economy holds the leading position among the various economic components, the state, as the representative of the state-owned economy, must use its political power to regulate the market. The result of this is an economic movement situation where "the state regulates the market and the market guides the enterprises."

The two above-mentioned views stress mainly the social and ownership relationships of the new mechanism, by which "the state regulates the market and the market guides the enterprises." Actually, this new mechanism is determined by the nature of the modern commodity economy. Although, in its specific form and functional process, it is subject to the restrictions of a particular social system and ownership system, as a general movement mechanism of a modern commodity economy, it has no innate relationship with the nature of the social system or the ownership system. Thus, it is an economic movement mechanism target commonly sought by Eastern and Western countries in the implementation of a modern commodity economy system. That is to say, if one implements a modern commodity economy system it is inevitable that one adopts this economic movement mechanism. Under modern commodity economy conditions, enterprises have market profits as their goal, operational decisionmaking is ultimately determined on the basis of market signals and overall economic activities are all decided and completed in the movement of the market. Thus enterprises must be subject to the guidance of the market. However, when the market guides enterprises, it often occurs, because of delayed, adulterated, distorted, or poorly transmitted market signals, that there are faults in the guidance and thus there is a need for state regulation. It can be seen that under modern commodity economy conditions, enterprises that make their own operational decisions and are responsible for their own profits and losses, a market which is fully developed and quite complete, and a state which is able to sensitively and effectively regulate the market are all indispensable factors in the overall economic movement mechanism. These elements are mutually conditioning and promoting, have mutual roles, and are mutually restricting. Thus, we should see the mechanism by which "the state regulates the market and the market guides the enterprises" as a modern commodity economy movement mechanism. Only if we understand the mechanism in this way will it be of benefit in our making proper reference to the mature experiences of the West in this respect.

IV. The Development Process of the New Mechanism by Which "the State Regulates the Market and the Market Guides the Enterprises"

The new mechanism by which "the state regulates the market and the market guides the enterprises," as a goal in the reform of our country's economic movement mechanism, will require success in the overall economic structural reforms before it is finally formed. Thus, we cannot accomplish this goal in one step or realize it in one move. Rather, it will be necessary to go through a process from emergence to mature development. I believe that this process will include three stages:

The first stage will be one where the state reduces its administrative regulation. In this stage, the new mechanism by which "the state regulates the market and the market guides the enterprises" will have just emerged and there still will not be any internal economic relationships between the state and the market. The state will find it difficult to completely take on the regulatory task. Thus, the state will let the market develop and bring its role into play. This will be mainly because the state will find it difficult to free itself from traditional mechanisms, since for a long time there has been a model of centralized economic power and because of reasons such as the rigidity of power and the rigidity of organs. In particular, the inertia of original state activities will obstruct changes in the state's economic management functions. Thus, the establishment of a new economic movement mechanism faces three difficulties: 1) There is no fully developed market system. The shortfalls exposed by the market in this situation are not innate deficiencies in the market itself, but external deficiencies formed through an incomplete market. This requires that we establish a quite developed market system. 2) The state's existing management capacity is a centralized, administrative capacity for directly managing the economy. It is basically without effective capacity to regulate the market and, thus, state organs and specific functions need to be created to foster the capacity of the state to regulate the market. 3) Under the traditional system, enterprises are appendages of state administrative organs, not market entities with innate links to the market. Thus, there needs to be reform of enterprises, especially of state-owned enterprises. The main tasks in this stage are: reducing state regulation, strengthening the market mechanism, and making enterprise budgetary restrictions firmer. These three tasks are mutually promoting and mutually responsive. Reducing state regulation refers not only to the state no longer managing what it should not manage, but also to the state not managing those things which it does not have the capacity to manage or cannot manage effectively. Practice has proved that, when the state is unable to manage something or unable to do so effectively, spontaneous regulation by the process of economic movement is better than confused orders issued on the basis of subjective assumptions. Thus, those economic activities that the state should not manage, does not have the capacity to manage, or cannot effectively manage, should, through legislative means, be forcibly made independent of state

regulation. Further, through strengthening the market mechanism and making enterprise budgetary restrictions firmer, a strong force can be exerted on state power. Then, through using the strengths of the market and of enterprises, it will be possible to limit state regulation to its appropriate range. Strengthening the market mechanism refers to bringing fully into play the role of the market mechanism, so that it covers the whole range of economic activities in society. Also, using market characteristics as a linking pivot between the state and enterprises, it will be possible, through strengthening the market mechanism, to force the state and enterprises to move on to the track whereby "the state regulates the market and the market guides the enterprises." Making enterprises' budgetary restraints firmer refers to making the enterprises true market entities and, by making these "appendages" subject to the market, allowing them to throw off direct control by the state and completely enter market movement. The above analysis shows that the key tasks in the first stage are reducing administrative regulation by the state and fostering a market.

The second stage will be a stage of comprehensive regulation. In this stage, although the market will have gone through the first-stage development, a unified market will not have been completely formed. Rather, there will exist four types of markets—limited markets, complete markets, markets linked to world markets, and spontaneous markets. The state should adopt different types of regulation with respect to these four types of markets:

1. The state, in its regulation of limited markets, should adopt mainly the simulated-market regulatory form. Limited markets refers to markets where, for various reasons, it is not possible to completely rely on effective regulation by market signals. This includes mainly markets for the defense industry and noncompetitive products. The focus of the state's simulated-market regulation will be that, in line with average profit rates and average income levels of staff and workers throughout society, the state will fix profit rates and staff and worker income standards for limited-market enterprises, so as to promote and motivate the producers' enthusiasm.

2. The state, in its regulation of complete markets, should mainly adopt a form of regulation by market signals. Complete markets are markets where the market mechanism is able to fully and automatically bring its functions into play. In these markets, the state should not adopt any regulatory measures that will harm the mechanisms within the market. That is to say, it must not engage in external intervention and must instead provide internal guidance. In these markets, since a functional relationship exists between market signals and macroeconomic variables, the state is able to regulate market signals through regulating macroeconomic variables and thereby play a regulatory role within the markets.

3. The state, in its regulation of markets that are linked to world markets, should mainly regulate the environment in which market entities operate. The content of

this form is that, through regulation of the operating environment of enterprises with foreign connections, the state's overall interests will be guaranteed and the various shortcomings of individual enterprises in their activities in the world market will be remedied.

4. The state, in its regulation of spontaneous markets, should mainly adopt the form of regulating market rules. Spontaneous markets refer to free markets that are not part of state planning and that do not implement state regulatory goals through market mechanism. In order to guarantee the standards and order of such markets, the state must engage in regulation through market turnover rules, market competition rules, and market operation rules.

The third stage will be a stage of regulation through parameters. In this stage, the market, through full development, will become a complete, unified market. The change in the state's regulatory function will already have been realized and it will have a complete, indirect regulatory capacity. At the same time, internal relationships will have been established in the market, and state macroeconomic policies will thereby become parameters for change in market signals. In this stage, the state will be engaged mainly in the formulation of macroeconomic policies and will regulate the market through the parameters thus formed. Thereby, there will finally be established an economic movement mechanism by which "the state regulates the market and the market guides the enterprises."

JINGJI GUANLI on Government Economic Behavior
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[Article by Xu Xiangyi 1776 0686 5669, Zhong Genshen 6945 5087 3234, and Chen Zhipun 7115 1807 6511: "Transformation and Amelioration of Government Economic Behavior"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, our country's economic reform has passed through a period of 10 years. In the course of the interchange between the new and old structures the government has begun to put aside the old structure's highly centralized management method of the product economy and gradually set up an indirect adjusting and controlling structure which principally relies on economic measures. However, due to the enormous inertia of the old structure, and to the state of the low-level development of the commodity economy, the government's economic behavior in the process of transformation of the structures still bears the mark of the lingering old structure. As a result, certain disturbing socioeconomic phenomena have appeared. Facts show that transformation of the government's economic behavior has become of key importance in the creation of a new economic order.

I. Deviations in Current Government Economic Behavior

So-called government economic behavior is the government's trend in making ordinary economic policies and its target reactions to the changes in economic conditions. Through a deep-going analysis of the complex economic phenomena we can see that in current socioeconomic life one of the sources of a state of disorder is the government's lack of pre-fixed regulations governing economic behavior and this leads to confusion in the actions of enterprises and individuals. Specifically speaking:

A. Government—Market: Lagging Behind in Macroeconomic Control

In the course of the rapid transformation from the product to the commodity economy the government gave up the traditional method of making use of mandatory planning to directly control the economy but for the time being the mechanism for indirect control of the economy has not yet been evolved. The result was that the government, for the sake of maintaining the smooth operation of the economy, could not but interfere in economic activities. However, the effects of the intervention are steadily decreasing. For example, in guiding the enterprise's activities and in the course of reform based on the ideas of "delegating power and surrendering interest" and "enterprise contracting," the decisionmaking power of the enterprises has continuously expanded but the original administrative subordinate relationship of the enterprise to government departments has been retained. Government departments at various levels on the one hand act as social administrative controllers and at the same time serve as direct participants in operation activities, signing with lower-level departments and the enterprises relevant agreements on investment, distribution, rewards, and punishment. The government is not regulating the market but is still directly controlling the enterprises. In comparison with conditions before reform, the only change was from the previous daily interference in the enterprises to centralized intervention at the time of the interchange period of contracting. The effects of this type of intervention are offset or reduced by the endless negotiations and wrangling between the lower level departments and enterprises and the upper-level government departments. In maintaining market competition, government departments at various levels exercise market control on the one hand and, on the other, directly establish "companies" and "centers" of various names and kinds, all with the purpose of profit making and taking part in market competition. This leads to "no difference between officials and merchants" and the prevalence of the practice of "officials buying at low prices and reselling at higher prices." It seems that for the time being the first concept in a market economy of competition on equal terms cannot be realized in actual economic life.

B. Market—Enterprises: Wrong Positioning of Operation Mechanism

At present, as a result of the enterprise's property ownership relations not having yet been straightened out and the enterprise's subordinate relationship to the administrative

departments in charge not having been broken, the enterprises cannot yet become real independent commodity producers and entrepreneurs. The government still holds a substantial portion of the distribution power of raw materials and the power to fix prices. This compels the enterprises to cast one eye on the market and the other on the upper-level and to suffer from a double driving force from both the market and the government. The latter force is the one that exerts decisive effects on the enterprise. Unfortunately, because the government frequently errs in its understanding and control of the uncertain factors in future economic development, and frequently changes its macroeconomic planning and policy, the enterprise's behavior becomes governed by the subrule of "policy from above; counterpolicy from below." Due to the frequent changes in external environment and the government's controlling departments at the upper level always doing their utmost to help the enterprises shake off the lashes of the market forces, the enterprises bear only limited responsibility for their own operation activities. This leads to the serious consequences of enterprise's actions becoming of the short-term kind, to inflation in consumption funds, and to twisting of the market mechanism.

C. Enterprise—Individual: Blocking Dual-Direction Selection

Under the system of the product economy such factors as "everybody eating from the same big pot" and "iron rice bowl" have suppressed the wishes of the workers to display their wares and capability. Since reform of the economic structure the system of labor contracts has helped to take an important step forward in the solution of this problem. However, seen from the current actual practices in various localities, the labor contractual system has drifted into formalism and the government, out of concern for the social situation, has always resorted to various ways and means to compel the enterprises to "digest internally" the superfluous labor power weeded out by their internal labor amelioration departments. Seen from this context, government has still been playing the role of protecting the "iron rice bowl" of staff members and workers. In addition, because the government is still unable to establish the social security system, the staff members and workers are wary of the possible consequences of job selection and drifting from one job to another. Thus, the double-barreled selection channel of the enterprise selecting personnel and the individual selecting employment is severely blocked. At the same time, the government has weakened the past stringent control mechanism over consumption funds. In consequence, the spread of the situation whereby staff members and workers demand in unison an expansion of the short-term consumption income and scrambling between the individuals and the enterprises gathers momentum.

From this it can be seen that confusion in regulating the government's economic behavior has led to the economic behavior of the enterprises and individuals to drift into a state of instability and without order. This

shows that in order to establish a new order for the socialist commodity economy, it is necessary to first of all transform and ameliorate the government's economic behavior.

II. Basic Contents of Transformation of the Government's Economic Behavior

Transformation of the government's economic behavior means the transformation of the government's command and control of the enterprises under the traditional structure into nursing and regulating the market; from the government's microeconomic single-bodied regulation to macroeconomic whole-bodied regulation; and from direct to indirect regulation of economic activities. Specifically speaking this includes the following:

A. Transformation of the Principal Body of the Government's Economic Behavior

The principal body of the government's economic behavior is the government's organizational structure for regulation of the economy. The government's regulation of the economy is usually carried out by means of the two elements of the administrative direct-line system and the social functional-line system. The administrative direct-line system is based on the principle of shifting from top to bottom demarcation to a fixed number of levels, with each level setting up a controlling organ, the upper-level organ directly commanding the lower-level organ, and all the state-owned enterprises being embraced into the administrative subordinate relationship of the government departments. Our country's ministries, departments, and bureaus are the controlling organs of the government's direct-line system. The social functional-line system establishes controlling organs based on the socioeconomic functions. These organs generally do not directly enforce direct command over the enterprises but restrain the enterprises' activities through established laws and legal statutes. Departments of industry and commerce, commodity price, auditing, quantitative measurement, taxation, and so forth belong to the controlling structure of the government's functional-line system. Under the traditional product system the government principally relied on the organs of the administrative direct line system and through the subordinate relation of the enterprises to the administrative departments to regulate economic operations. This pattern of control by means of the administrative direct-line system has become one of the factors impeding the development of the commodity economy. Therefore, transformation of the government's economic behavior must first transform from reliance principally on the organs of the administrative direct-line system to reliance principally on the organs of the social functional-line system to regulate the economy. The concrete measures are: Enterprises are wholly separated from the government system and the control organs of the administrative direct-line system are streamlined and reduced in number. These departments should only indirectly control the enterprises through formulation of the regulations governing

the industries and trades, industrial policies, technological standards, regulations in competition, and so forth. Concurrently with weakening the administrative and controlling departments' direct interference in the enterprises' economic activities, the functions of the departments of the social functional system are to be augmented. Departments of finance, taxation, banking, industrial and commercial management, price control, control of measurement standards, auditing, supervision, economics, and judiciary should become the principal carrier bodies of the government's economic behavior. By means of various kinds of economic laws, regulations and rules, and public regulations, these departments protect the legal interests of the principal bodies on the various sides of market activities. At the same time they strengthen their role of inspecting, supervising, and auditing the economic units to create a favorable environment for economic development.

B. Transformation of the Objects of the Government's Economic Behavior

Different from the usual run of economic and social organizations, government has the responsibility within the scope of law and based on the rules of justice to employ arbitrary measures to maintain and regulate the market and ensure the effective operation of the market mechanism. Hence, government should shift from former direct control of the enterprises to controlling the market. First, it should maintain the principle of justice and fairness in market transactions. Although the market is governed by the rules of competition in terms of justice and fairness, in itself it lacks the mechanism to rectify unjust competition. This requires the government, by means of legal and administrative measures, to ensure equality in the status of all those engaged in exchange activities and equal opportunities for them to take part in competition and to promptly stop unjust behavior by them. Second, government should mend the defects in the market mechanism. Concurrently with pushing the high-efficiency development of the economy, the market mechanism is liable to cause the ill effects of wasting social resources, disrupting the ecological balance, and causing economic undulations. The functions of the government are precisely to act in the capacity of a social controller and adopt such measures as making macroeconomic forecasts, promulgating economic news, and imposing economic fines so that there will be the best distribution and disposal of social resources and economic fluctuations will be reduced to the minimum.

C. Transformation of the Government's Economic Behavior and Tactics

In the course of the interchange of the new and old structures, despite the government's gradually forsaking the measures of mandatory planning and regulation, it still has control of a substantial amount of material targets and still holds policymaking power in respect of the salaries, wages, and personnel matters in enterprises.

After the transformation the government's economic behavior should, based on the economic conditions and actual needs of the moment and in combination with the employment of the currency, financial, and income policies be to regulate the entire process of the economic operations. First, so far as the currency or monetary policy is concerned, it must gradually establish the status of the central bank independently formulating the monetary policy and ensure the volume of money supply does not exceed the economic growth rate. Second, regarding financial policy the government should build a taxation system on the standard of a just and fair tax burden and basically remove the current practices of having different sets of tax systems applicable to state-owned enterprises, collective enterprises, and other types of enterprises. Finally, as for income policy, the government, concurrently with completely giving up the method of directly regulating the distribution of salaries and wages in enterprises, should, on the one hand, control the extent of growth in the gross volume of salaries, wages, and income of the entire society so that the growth in consumption does not exceed the growth in production. On the other hand, by means of labor law, it should specify the lowest wage for workers and protect their minimum wage level.

III. Amelioration of the Government's Economic Behavior

Basically speaking, transformation of the government's economic behavior is determined by the transformation of management and control of the entire national economy from the product economy type to the planned commodity economy type. Whether or not the government's economic behavior is rational to an extent governs the speeding up or slowing down of the above-mentioned transformation of the economic operation mechanism. In order to ensure the smooth transformation of our country's economic operation mechanism it is necessary to adopt effective measures to realize the amelioration of the government's economic behavior.

A. Separation of the Dual Functions of Government Departments

Be it under the old structure or in the transfer period of the new and old structures, the principal economic controlling departments of our country have a noticeable feature. That is, the management functions of state-owned assets are merged into one body with the general socioeconomic management functions. The merged operations of the government's dual functions make the government's economic behavior suffer from the double target of mutual conflict: As owner of the assets the government is concerned with the investment rate of the assets and their continuous increment in value; and as the regulator of the general running of the macroeconomy, government must ensure a high growth rate of the economy and the realization of a series of targets such as full employment, egalitarianism in income, and so forth. To realize the first target the government expands the

decisionmaking power of the enterprises and demands that the enterprises run autonomously, be solely responsible for their own profits and losses, and improve the operation benefits of the assets; for the sake of realizing the second target, government departments directly intervene in the activities of the enterprises and compulsorily demand that the microeconomic targets of the enterprises are in conformity with the government's macroeconomic targets. Under the conditions of the unceasing changes in the economic conditions government departments have frequently fallen into a dilemma. In our opinion, the only way out of the above-mentioned problem is to effect the separation of the government departments' management functions over state-owned assets from the usual run of economic regulatory functions and dilute the supereconomic color of the ownership right of state-owned assets. The concrete measures are: First, formation of an operational type of state-owned assets management structure, centralizing the ownership rights of all the state-owned assets currently scattered in the various departments in charge and establishing a specialized management structure. In the operation and management of state-owned assets the principle of making the maximum profit is to be implemented and management of an opening up and competitive nature is to be enforced. Second, merging together the government's original specialized economic management structures to form a large-span trade and industrial management structure. The government's trade and industry management and control department does not have any directly subordinate enterprises, does not directly interfere in the economic activities of the enterprises, and principally relies on such methods as the established trade and industry plans and industrial policies to indirectly control the enterprises. Thus, organizational assurance is provided for rationalizing government economic behavior.

B. Establishing Supervisory and Rectifying Mechanisms To Bring About Healthy and Perfect Government Economic Behavior

One of the important causes of past government economic behavior being irrational was the lack of a restrictive mechanism over the government's economic behavior. According to modern principles of management the various kinds of management organs must form a closed circuit of mutual restriction. On the management structure side, each kind of power must be subjected to restriction by another kind of power. Each and every behavior body or act must be subjected to the supervision of another behavior body and each and every responsibility must accept the inspection of another responsible structure. The government's control department is also no exception. For the sake of facilitating the smooth transformation of the government's economic behavior and amelioration of the government's economic behavior it is necessary to establish and perfect the various systems supervising the government's economic behavior. Among these the principal ones are:

First, a mutually supervisory structure for the administrative departments. Inside the government the various economic and social control departments, such as industry and trade control, industrial, commercial and administrative control, standards, measurement, auditing and supervisory departments must carry out their activities within the prescribed rules. At the same time each department may utilize the power endowed by the government to rectify the irregular behavior of other departments. Second, a legal supervisory system. In socioeconomic life, putting in a fixed legal form the many rules and regulations governing economic relations and economic activities, and ensuring their implementation by economic and judiciary means, is the basic protection and guarantee for the establishment of a benign economic order. Hence economic legislation is the standard for solving the power and obligation relations between the government, economic organs, and individuals. The independent character of the economic and judiciary departments must be maintained. As regards the interested parties in all court cases involving relevant government organs or officials, they should be subjected to just and fair trial and arbitration. By so doing it will be possible to place the government's economic behavior inside the restrictive realm of legal statutes and prevent or reduce the subjective and random character of the government's economic behavior. Third, a social supervisory system. Individuals, enterprises, and various kinds of social organs can all exercise supervision power over the government according to law. The government's economic behavior should as far as possible be publicized its transparency must be intensified, and it should consciously accept extensive social supervision. The purpose of establishing a supervisory mechanism over the government's economic behavior is not to wipe out the deviations in the government's economic behavior but to be capable of promptly correcting its deviation tendency and reducing evil consequences to the minimum.

Ownership Rights Seen as Key Element in Enterprise Reform
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[Article by Zhou Shulian 6719 0647 5571: "Objectives of Enterprise Reform and Their Theoretical Basis"]

[Text] For the purpose of deepening enterprise reform, it is necessary to examine the objectives and pattern of the reform and its theoretical basis. This article is purported to offer some views on several of the problems connected therewith.

The Enterprise Contract System Is Not a Temporary Measure and Is Also Not the Target and Pattern of the Reform

Some comrades take the enterprise contract system as a temporary or expedient measure. Certain other comrades believe that the system is the target and pattern of enterprise reform. Both of these views are one-sided.

The enterprise contract system occupies an important place in enterprise reform and plays an important role. The contract system has the special features of the contracted base figure being irrevocably fixed, the upward delivery of profits or taxes being rigidly ensured, larger retentions if the income is in excess, and self-replenishing in case of poor receipts. It realizes to a definite degree, the separation of government from enterprise functions and the separation of ownership right from the right of operations. It changes the conditions of the nonseparation of government from enterprise functions and all the enterprises under the system of ownership by the whole people being subject to the direct control of the state. It fixes in a contractual form, which has legal effects, the responsibilities, rights, and interests of the enterprise, and the relevant unit in charge so that the enterprise and the controlling unit, outside of the original subordinate relationship, establish a sort of contractual relationship in equality. This provides the enterprise contract system with many strong points. The principal ones are: First, the decisionmaking power of the enterprise prescribed by the state can be enforced; second, the motive power mechanism of enterprises can be strengthened; third, budgetary control of enterprises can be hardened; fourth, enterprises' capacity for self-accumulation, self-transformation, and self-development can be augmented; fifth, enterprises can be pushed to improve management and operations; sixth, responsibilities of the controlling departments can be clarified; seventh, formation of the market structure can be facilitated; eighth, macroeconomic management and control can be improved and strengthened; ninth, a large number of socialist enterprises can be trained; and tenth, the state's financial revenues can be ensured. The many "can's" mentioned or implied principally carry the meaning of possibility. Possibility is not equivalent to inevitability. Changing possibility into reality still demands other conditions, particularly man's subjective efforts. However, the enterprise contract system really does embrace the above possible points and, hence, it should not be treated as a measure of expediency, but, within a stated period of time, should be perfected and its strong points widely propagated and its potentialities suitably displayed.

Nevertheless, we cannot treat the contract system as the target pattern of enterprise reform. The target pattern of enterprise reform is to make the enterprise become truly an enterprise, that is, a real commodity producer and operator. This will require the enterprise to be truly independent, able to operate wholly autonomously, be solely responsible for its own profits and losses, possess a self-restriction mechanism, and perform rational acts. The existing contract system is still far from these demands; and even after perfection of the enterprise contract system there is still a great way from these demands. The reasons are as follows:

First, enterprises that have already enforced the contract system are still, to a considerable extent, subordinate to government organs, and in the enterprises there is still a

"mother-in-law" in the family. What they can do is to maintain "relative independence," whereas enterprises in the real sense should be completely independent and not subordinate to any government organ, there being no "mother-in-law" exercising her power in the family. It is true that enterprises need to be subjected to a controlling department, but they should have only a kind of business relationship and not one of a subordinate relationship between an upper and lower level.

Second, in enterprises already enforcing the contract system, their decisionmaking power in operation and management is still subjected to restriction, and a rather large restriction at that. For example, the contracting agreement prescribes the profit target and, in some of the agreements, some other technical and economic targets are prescribed, including the quantity of output, quality, consumption, opening up of new products, technology introduction, technical transformation, and so forth. So far as an enterprise in the true sense is concerned, these above-mentioned targets should be, based on the market conditions, subjected to being self-projected, and self-determined, and should not be decided or approved by the government organs, otherwise, the enterprise's policymaking and activities would be subjected to restrictions which should not have been the case.

Third, in enforcing the contract system, the enterprise cannot be completely, solely responsible for its own profits and losses. To be solely responsible for one's own profits and losses demands a series of prerequisite conditions. For example, the enterprise must be run autonomously. If the enterprise cannot be completely autonomous in operation and management, then it will not be possible to demand of it to be solely responsible for its own profits and losses. Moreover, the state's properties and the enterprise's properties must be strictly demarcated. In other words, an enterprise must have its own assets or properties, and a clear line of demarcation must be drawn between the state's properties and the enterprise's properties. Only by so doing can the enterprise be truly solely responsible for its own profits and losses. On the other hand, in the case of enterprises under the contract system, the regulation is that they do not possess the ownership right of assets or properties. How then can they make use of their own properties to bear the responsibility of being solely responsible for their own profits and losses?

Fourth, enterprises carrying out the contract system cannot accomplish or satisfy the demand of being guided by the market and of being guided by the state-regulated market. This is because not only are they not real enterprises but also because market structure has not been formed, the price structure is irrational, and the role played by the market mechanism (including the price mechanism) is limited. A real enterprise must have a developed market structure as the arena for its activities. Nevertheless, once a market structure is formed, the price structure is rational and the market mechanism plays its role in full, then the mission of the current enterprise contract system in the reform will end.

Fifth, because of the above-mentioned causes, enterprises carrying out the contract system have found it difficult to form a self-restrictive mechanism necessary for a true enterprise and it is also difficult to overcome the irrational acts, such as those of a short-time nature.

That the enterprise contracted management responsibility system cannot become the target pattern of enterprise reform is related to the basic contradiction that exists with it. The basic contradiction is that separation of government from enterprise functions has made a start, but is not yet fully completed. After beginning enforcement of contracting the government's separation from enterprise functions by means of the contract agreement, the contract agreement still states that the government has not been completely separated from enterprise functions. Our task in perfecting the contract system may be generalized as making the separation proceed further and in the end to reach complete separation, so that the enterprise possesses full decisionmaking power in operation and management, possesses conditions for being solely responsible for its own profits and losses, and becomes an independent producer and operator. This is the direction and target of the further deepening of enterprise reform.

Theory of the Separation of the Two Powers Should Be Amplified and Developed

There are many difficulties in realizing the target pattern of enterprise reform. One of the main difficulties is how to truly enable the enterprise to operate autonomously and to be solely responsible for its own profits and losses.

The difficulties of realizing autonomous operation on the part of the enterprises are: First, to clarify what autonomous power the enterprise has and, second, to actually carry out the clarified autonomous power of the enterprise. At present, the outstanding difficulty is the second one. Since reform, the party Central Committee and the State Council have issued many documents prescribing the operational decisionmaking power the enterprise should have, but to truly carry out this autonomous power is extremely difficult and, besides, the problem of exactly what autonomous power the enterprise should have has yet to be solved. The most obvious question is: can the enterprise have only the right of operation and not the right of ownership? Up to now this problem has not yet been clarified.

The difficulties met with by the enterprise in realizing autonomous operation are also the difficulties met with in realizing the objective of being solely responsible for its own profits and losses. After all, an enterprise itself has the difficulty of being solely responsible for its own profits and losses. According to the regulations, up to now, relative to the assets or properties the power of operation and management of which the state has given to the enterprise, the enterprise has only the management right and not the ownership right. Under such

conditions, can state-owned enterprises be solely responsible for profits and losses? According to normal reasoning, an enterprise's profits and losses are borne by the owners; if an enterprise does not have its own assets or properties, how can it be made responsible for profits and losses? In order to solve the problem of the enterprise being solely responsible for its own profits and losses, some people have advocated the practice of deposit or guarantee contracting and, in the event of a loss, it should be compensated from the deposit made by the contractor. And they believe that this is being solely responsibly for its own profits and losses. It is true that such a practice has the benefit of strengthening the sense of responsibility on the part of the contractor, but it is still not tantamount to being solely responsible for its own profits and losses. This is because it has not solved the problem of the enterprise using its own assets or properties to bear the responsibilities of profits and losses; and, moreover, there is quite a disparity between the contractor's deposit funds and the responsibility the enterprise should bear for profits and losses. Some other people believe that if the enterprise tries out the system of entering funds into separate accounts, then it may solve the problem of the enterprise being solely responsible for profits and losses, and that by so doing, it will be tantamount to the enterprise being solely responsible for its own profits and losses. The scheme calls for separating the enterprise's operation and management funds into state funds and enterprise funds, and setting up separate accounts for them. It is prescribed that the enterprise funds be taken as the risk-sinking funds, covering the profits and losses of the contracted enterprise. In the event that the enterprise fails to complete its assignment of delivering to the upper level profits or taxes, the deficit will first be offset by the profit retained during the current year and, when it is insufficient, the enterprise funds will be used to make it up. Doing so really strengthens the responsibility of the enterprise and the contractor, including making the enterprise bear a part of the responsibility for profits and losses. However, this, strictly speaking, is not equivalent to the enterprise being solely responsible for profits and losses. This is because: first, the enterprise still does not possess ownership rights to the properties or assets that it operates and manages. According to regulations, the so-called enterprise funds are still of the "nature of belonging to the system of ownership by the whole people"; second, when the enterprise funds are insufficient to compensate for the enterprise's losses, state funds have still to be drawn upon for compensation. This is still the state having the unified responsibility for profits and losses; third, because the enterprise is a legal person, its funds constitute an integrated whole, and to prescribe a portion as enterprise funds is equivalent to prescribing a portion as nonenterprise funds. This is obviously disadvantageous to the enterprise or to making effective use of the whole of its funds, and may lead to certain unnecessary contradictions. In my opinion, one of the preconditions for the enterprise to be solely responsible for its own profits and losses is that the enterprise possesses its own properties or assets, and precisely speaking, it has

ownership rights over the properties or assets that it operates and manages. If not, the enterprise cannot be said to be solely responsible for its own profits and losses. Some people have said that state-owned enterprises cannot be solely responsible for their profits and losses. This claim is not without reason under present conditions when enterprises do not possess the rights of ownership.

From the above analysis it can be seen that the enterprise's autonomous management and sole responsibility for its own profits and losses are related to the theory of separation of the two powers or rights. This theory provides the basis for enterprise reform. It demands that, without changing the character of the state-owned enterprises being subjected to the system of ownership by the whole people and at the same time demanding that operation right be given to the enterprise, the pattern is that the ownership right belongs to the state while the operation and management right belongs to the enterprise. In the target pattern of enterprise reform, the above demands should be insisted upon. But, in the following problems, separation of the two powers is not quite clear:

First, handling relations between the government's management right and the state's ownership right. The government, as a state organ, has the power of administration and control, including regulation and control power over the national economy. At the same time, the state's ownership right is now also in the hands of government organs. These two kinds of rights or power are different from each other in nature but are lumped together. This is an important cause of the nonseparation of government from enterprise functions. For some time, we have discussed separation of ownership rights from operation or management rights, but have not made a sufficient study of the relations between government management power and state ownership rights. Merely theorizing on the separation of two powers has not and cannot solve this problem, and if government management power and state ownership power should continue to be lumped together, then it will be difficult to ensure that the enterprise has decisionmaking power in self-management and operation, and the enterprise will find it difficult to be solely responsible for its profits and losses. Not only that, but it will also be difficult for thorough implementation in localities where economic constituencies of a pluralistic nature coexist.

Second, demarcating the line between state ownership rights and enterprise management rights. An integrated ownership right embraces operation and management rights, and the latter is a constituent part of the former. Separation of the two powers dictates that the state possesses the ownership right while the enterprise has the management right. But exactly what management power the entrepreneur has is not clearly defined. In reality, the entrepreneur's management right is determined by those possessing the ownership right. Government, in its capacity as owner, can endow the enterprise with more

management right or can endow it with less management power. This does not violate the principle of separation of the two powers. If an enterprise is devoid of the ownership right, then its management right does not have basic protection. Some people have reflected on the difficult demarcation between ownership and management rights and feel concerned that the management right is unstable. This is a problem that cannot be thoroughly solved by the theory of separation of the two powers or rights.

Third, handling the relations between the enterprise's internal ownership right and management right. At present, the relationship formed on the basis of the theory of separation of the two powers between ownership rights and operation rights is an external relationship of the enterprise. If the ownership right exists only outside the enterprise, and not inside, then either the ownership right finds it difficult to realize its own demands or the management right cannot be truly separated from the ownership right. Hence, as an enterprise form that possesses life force, it is necessary, inside the enterprise, to handle well the relations between the ownership right and the management right, neither strengthening the ownership right nor weakening the management right, but making them reciprocally restrictive, each in its proper place. How to form and handle, within the enterprise, the relations between the ownership right and the management right is also a problem that cannot be solved by the theory of the separation of the two powers.

Undoubtedly, the theory of separation of the two powers is a big step forward compared with the traditional theory of combination of the two powers. It has played and is still playing an important guiding role in our country's economic reform. However, more reliance on this theory still cannot make state-owned enterprises carry on truly autonomous operation and be solely responsible for their profits and losses. In order to lay a more scientific theoretical foundation for the enterprises' autonomous operation and sole responsibility for profits and losses, we should replenish and develop the theory at least from the following three sides:

First, implement separation of government management power and state ownership rights. This means that the function of the state as economic controller must be separated from its function as owner of the state-owned assets. Some people have suggested that the main economic levers, such as prices, taxation, interest rates, and foreign exchange rates, should be centralized in the hands of the central government; that government should regulate and guide the socioeconomic and treat alike the enterprises under various forms of ownership system; that the central government does not directly hold the ownership rights to the assets of state-owned enterprises, and that the corresponding controlling organs or public financial organs should exercise the function of the owners. The government, in its capacity as economic controller, should use unified tax rates to

collect taxes from all enterprises and aftertax profits should belong to the owners; taxes and profits should be strictly demarcated with respect to ownership and direction of use. In my opinion, these opinion are correct.

Second, implement separation of the state's ultimate ownership right and the enterprise's ownership right of legal person or entity. This is cutting off the state's ownership right and making it retain the final ownership right and having the enterprise possess the ownership right of the legal person. As to properties endowed by the state with the right to operate and manage, the enterprise not only can possess, use, and dispose of them, but also enjoys ownership rights. Thus, the enterprise becomes the owner of the properties and possesses the rights of ownership of the properties. Its management power is also backed by its ownership right. As the principal body of the properties, the enterprise can then be solely responsible for its profits and losses. The state retains the final ownership right of the properties of the enterprise, but this type of final ownership right is similar to the stockholding rights of shareholders of companies in the West. Although stockholding is also ownership right (final ownership right), shareholders cannot directly control the company's properties. In a stockholding company, shareholders bear the final responsibility for profits and losses. In a state-owned enterprise, the final responsibilities for profits and losses are also borne by the state. However, after splitting up the state's ownership rights into the state's final ownership right and the ownership right of the legal person of the enterprise, the properties endowed to a certain enterprise for management are already strictly demarcated from other state properties. The enterprise, in its capacity as a real legal person, is first responsible for the profits and losses, while the state's end responsibility also covers only this portion of the properties, similar to the limited responsibility borne by shareholders of stockholding companies. The state is no longer wholly and limitlessly responsible for the profits and losses.

A saying used to be in circulation to the effect that separation of the two powers wholly prevent the enterprise from holding ownership rights to properties. Seen at present, this viewpoint is incorrect. Separation of the two powers as mentioned by Marx referred to two sets of conditions: One set of the conditions considered the owners actually separated from management, and the operation and management were given to, and borne by, the paid manager. This is what he said: "Capitalist production itself has created numerous instances of the direction of labor, which is completely separated from the capital ownership right. Hence, this kind of direction of labor no longer needs the capitalist himself to take charge."¹ The other set of conditions referred to the credit and loan capitalist loaning his capital to the industrial capitalist to manage and operate; this type of capital ownership right is separated from its functions that Marx called "separation of the legal ownership right from its economic ownership right."² When applying Marx's theory to the reform of state-owned enterprises

under socialism, the former set of conditions is applicable to the relations between the enterprise's internal ownership right and management right, while the latter set of conditions is applicable to the relations between the state and the enterprise. Splitting up the state's ownership rights into the state's final ownership right and the ownership right of the legal person of the enterprise, so that the enterprise holds the property ownership right, does not violate Marx's theory of separation of the two powers. In his analysis of the relation between the credit and loan capitalist and industrial capitalist, Marx called those persons who borrowed other people's capital to do business capitalists and said definitely that they possessed the "economic ownership right." Hence, why should we not allow state-owned enterprises, in their capacity as legal persons, to possess the ownership right exercised by legal persons?

Third, implement, within the enterprise, separation of ownership right and management right. After an enterprise as a legal person has procured the ownership right to properties, within the enterprise there also should be separation of the ownership and management rights. Separation of the ownership right and the management right consists principally of clearly defining the power, responsibility, and interest relationship between owner and entrepreneur. The functions of the owner of the enterprise are in general, four in number: (1) To formulate the regulations of the enterprise and prescribe its overall target; (2) To appoint and dismiss the constituent members of the board of directors; (3) To procure and distribute benefits from the assets and to examine and approve annual financial reports; (4) To maintain the integrated, intact character of the assets and seek their increment. The main functions of the entrepreneur of the enterprise are: (1) As representative of the legal person of the enterprise, to bear the responsibility with respect to its profits and losses; (2) To dispose and make use of the enterprise's properties; (3) To enforce the decisions on, and take command over, the enterprise's daily operations and management; (4) To report the operation conditions to the owner; and (5) To appoint management personnel.

Enforcement of the above three points in actual practices does not impede realization of the ownership rights of the state and management rights of the enterprise, and does not impede realization of the demand for separation of the two powers. From the theoretical standpoint not only does this not violate the theory of separation of the two powers, but fills in and develops it.

The Target Pattern of the Reform of State-Owned Enterprises

Based on an understanding of the above-mentioned theory of separation of the two powers, it will be relatively simpler to solve the target pattern for reform of our country's state-owned enterprises. This is to say, the

contents of the target pattern for the reform of state-owned enterprises are: The enterprise only has the management and operation right, but should also have the legal person's ownership right.

Some people long ago advocated that an enterprise should possess the ownership right. In their belief, the theory of separation of the two powers could not guide the state-owned enterprises to become enterprises having true vitality and vigor, and could even prevent them from being real enterprises. Hence, they advocated that the enterprise should have not only management and operation rights, but also the ownership right.

However, there are different views on enterprise ownership rights. One holds that the system of state ownership should be changed into a system of enterprise ownership or a system of collective ownership. By so doing, the state will lose the ownership right and the enterprise will obtain the ownership right and will realize unification of ownership right and management right. Another holds that, aside from state-owned enterprises possessing state-owned properties, the enterprises themselves may possess their own properties. For example, the enterprise's retained profit should be the enterprise's property and should belong to the enterprise's ownership and not to the state's ownership. That is, the enterprise does not have the ownership right over a portion of the properties (state-owned properties), but has the ownership right of another portion of the properties. The third view holds that, in a state-owned enterprise, the end ownership right of the property belongs to the state, but the enterprise has the legal person's ownership right over the property. Some people call the former ownership right the legal ownership right and the latter ownership right the economic ownership right. In short, the belief is that, in an economy under the system of state ownership, ownership rights can be subdivided; the enterprise as a legal person has the legal person's ownership right, as well as operation and management rights over the properties; within the enterprise, unification of the ownership right and the management and operation rights are realized, while the state keeps the end ownership right.

I am in favor of the viewpoint that a state-owned enterprise should have the legal person's ownership right and that the final ownership right belongs to the state. The target pattern of the enterprise reform mentioned in this article refers to this view. As for the view advocating the change of the system of state ownership into the system of enterprise ownership, then, based on this idea, the enterprise is no longer a state-owned enterprise and thus cannot form the basis for the theory of the target pattern of reform of the state-owned enterprise. Moreover, if a state-owned enterprise has the ownership right of only a portion of the properties and has no ownership right over another portion of the properties, then it cannot be said that the enterprise has realized unification of the ownership right with the management and operation right, nor that the enterprise has the legal

person's ownership right in the integrated sense, and hence cannot serve as a basis for the theory.

Reviewing past history shows that socialist state-owned enterprises have gone through four patterns. The first is the pattern of enforcement of the supply system. It is a pattern conceived by Lenin and was put into actual practice during the wartime period of communism. The second is the pattern enforcing the business accounting system, a pattern conceived by Stalin and in use for a long time in the Soviet Union and in China before the reform. The third pattern is one in which the enterprise has the decisionmaking power in simple reproduction, Sun Yefang's pattern; it was enforced during the initial period of the economic reform. The fourth pattern is one in which the enterprise possesses the operation and management right; it was the pattern stipulated in the CPC Central Committee's "decision on reform of the economic structure"; the enterprise contract system was the actual practice of this pattern. A fifth pattern may be said to be the enterprise pattern with possession of the legal person's ownership right advocated in this article.

The above-mentioned five types of enterprise pattern reflect the process of socialist state-owned enterprises developing into real enterprises, that is, real commodity producers and entrepreneurs. If an enterprise is not a commodity producer and operator, it can only play the role of a production unit, such as a production team or workshop, and not the role of an enterprise. Enterprises of the first pattern obviously are not real enterprises. Similarly, enterprises of the second and third patterns are also not real enterprises. Enterprises of the second pattern, though engaging in commodity production and commodity exchange, are not commodity producers and operators since the state imposes on them systems of unified receipts and expenses, and unified purchases and sales; the enterprises are but appendages of a high-level administrative organ. As for the third pattern, its originator, Sun Yefang, was opposed to the socialist economy becoming a commodity economy and, hence, he did not undertake the planning of the enterprise pattern in accordance with the demands of a commodity producer and operator. Only the fourth and fifth patterns call for the enterprise to become a commodity producer and operator and thus become a real enterprise.

We can, from the various sides, such as character of independence, decisionmaking power in operation, profit and loss responsibility system, and the ownership right, concretely make a study of the progressive and developing process of these five types of pattern as they are transformed from product producers to commodity producers.

So far as the character of independence is concerned, enterprises of the first pattern are completely subordinate to government organs and do not possess any independence. Enterprises of the second pattern have a definite character of independence; enterprise of the

third pattern have an even larger character of independence; and in the case of the enterprises of the fourth pattern, they demand the separation of government from enterprise functions and, hence, their character of independence is further strengthened. But under the second, third, and fourth patterns, the character of independence is only relative. We have customarily stated, and it is borne out by facts, that the enterprises could not completely shake off their subordinate relations to the government. Only under the fifth pattern do the enterprises possess the character of independence in its entirety.

As for the enterprises' decisionmaking power in operation and management, enterprises under the first pattern do not have such decisionmaking power in any sense. Enterprises of the second begin to have some decisionmaking power, but, strictly speaking, the enterprises still do not shoulder the problem of operation and management. Enterprises of the third have decisionmaking power in simple reproduction, but, according to Sun Yefang's original idea, the enterprises still do not bear the functions of operation and management. Enterprises of the fourth pattern begin to possess decisionmaking power in operation and management, and enterprises of the fifth pattern possess full decisionmaking power in operation and management.

Regarding the system of responsibility for profits and losses, enterprises of the first pattern have no responsibility for profits and losses and, in fact, have no ability to bear responsibility for profits and losses, and this is clear enough. Enterprises of the second require accounting for profits and losses but, due to the enforcement of the system of unified receipts and disbursements, the enterprises do not bear responsibility for profits and losses. This does not imply that profits and losses have no effect on the enterprise's staff members, workers, and management personnel. It affects the individual, but the enterprise does not have independent interests and cannot, nor is there a need to, bear responsibility for profits and losses. Enterprises of the fourth pattern can bear definite responsibility with respect to profits and losses because they possess the power of operation and management and, relatively speaking, have certain economic interests, but even under such conditions the enterprise still cannot enforce being self-responsible for profits and losses despite the common saying that the enterprise will be responsible for its profits or losses, or that it is clearly demanded that enterprises of the fourth should be responsible for profits or losses; or that they should take responsibility for profits and losses as their target, but when the enterprise does not possess its own properties, how can it be responsible for its own profits and losses? Hence, while it may be possible for enterprises of the fourth pattern to build a definite self-responsibility system for profits and losses, it is not possible for them to actually bear such responsibility. Only when the fifth pattern is realized can enterprises be truly responsible for profits and losses.

As far as property ownership rights are concerned, from the first to the fourth pattern the properties of the

enterprises belong to the state and the enterprises have no ownership rights whatever. Enterprises of the first suffer rather great restrictions in the right to use the properties; enterprises of the second and of the third have the right to use the properties, and enterprises of the fourth have the right of possession of the properties, the operation and management of which are accorded by the state, and they may also use and handle such properties according to law. Only enterprises of the fifth pattern possess the legal person's ownership right over the properties accorded to them by the state for operation and management, whereas the state retains the end ownership right.

In the foregoing, we have analyzed the reasons why the enterprise contract system cannot serve as the target pattern in the enterprise reform. These reasons are probably the reasons why the fourth pattern cannot be taken as the target of enterprise reform. On the other hand, the fifth overcomes these defects and, hence, it is suited to be the target pattern of enterprise reform.

Footnotes

1. *Complete Works of Marx and Engels*, Vol 25, p 435.
2. *Ibid*, Vol 26, p 511.

Reflections on Reestablishing New Order of Commodity Economy

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[Article by Tang Baoguo 3282 0202 0948, China Coal Science Institute: "Reestablishing a New Order of Commodity Economy—Reflections and Considerations"]

[Text] After only 10 years of effort, China has been through a process of reform that has taken many socialist countries several decades. There is an enormous range of choices for reform, and respectable powerful economic growth is continuing. However, problems in moving ahead and some unstable factors have also tended to be severe. The more outstanding ones are: 1) Spontaneous reform creates increasingly strong inclinations toward partial or small clique interests and under such circumstances, orders are not carried out and prohibitions are ignored, so that room for overall direction and regulation is rapidly reduced. 2) Compulsory redistribution of national income occasioned by inflation and over-distribution has intensified contradictions in economic interests, and corruption in society has intensified inflation. 3) The market mechanism is chaotic, the pricing system is unbalanced, the reciprocating impetus of rising wage costs and fluctuating increases in the price of materials has daily come more into the open, causing severe reinstatement of price parities, unchecked investment hunger, and sharply rising inflation in capital consumption. 4) Market and administrative forces have infiltrated each other, the special privileges of position and

profession have become phenomena of market exchange, and the commercialization of authority has created "manmade bottlenecks" in various areas of economic operation. These situations indicate that after the new and old systems had competed with and could tolerate each other, development has now reached a deadlock so that the change of mechanisms is blocked and dissipated by many disorganized forces. The coexistence of two emphasized systems, the enormous reverse energy stimulated by friction, and the overly coincidental proximity of various factors has created a disorderly vacuum in which the functions of the new and old systems cannot effectively play their proper role so that reform is entering a "strange circle" of chaos in current economic operations. This has caused China's reforms to move with difficulty in such a chaotic social environment. Thus, the most urgent topic facing us now is to establish as quickly as possible a new order to bring chaos under control.

The background to the chaos is a multilevel, interrelated "chain of causes." Here, the roles played by each "link" in producing this economic chaos are not of equal importance. This paper will attempt a further elucidation of the causes of the disorder in the operation of the economy.

A. The narrowness of the field of vision of the reform of separating ownership and management, being satisfied with the productive forces that are released by the leasing and contract systems, and evading reform of the state system of ownership is the first cause leading to economic disorder.

The separation of ownership rights and management rights is a basic part of reform. China's leasing and contract systems are finalized as a simple process of determining state and enterprise rights, responsibilities, and duties through consent (contract). This reform is China's attempt to reach effective restraint of state action through contracts and, hence, stimulate enterprises to achieve autonomous management and responsibility for profits and losses. However, several years of reform practice proves that leasing and contracting have lost the original spirit of bilateral consent and, hence, reform has deviated from our anticipated goals. The causes of the puzzling phenomena created by leasing and contracting are not complex. In the process of advocating and promoting the leasing and contract systems, we overlooked the separation of ownership rights and management rights, which are of even deeper and broader significance. In a commodity economy, there is bound to be an equal relationship of rights and interests between property owners and managers, there are clearly defined and distinct rights boundaries and interests boundaries, and ownership rights are exercised on a national scale and managerial rights are exercised on an enterprise scale. However, this issue did not receive proper attention in promoting reform of the leasing and contracting systems, so it retains the essential features of property

relations of the traditional system; property relations between the state and enterprises were not redefined. The consequences are:

1. State assets ownership rights are actually in the hands of different departments and local areas so that state ownership has, to a considerable degree, lost its appropriate meaning and taken on a form in which the meaning of departmental ownership and local area ownership is not clear. All interests must be protected by corresponding rights so that strengthening rights must also mean strengthening interests. In the process of separating ownership and management, we gave to departments and local areas property ownership rights that never should have been in their hands, that is, we strengthened some existing departmental and local area vested interests, expanding and stimulating the general interests of departments and local areas. Disposition of state rights not only could not reduce friction between the interests of state agencies to protect their own interests, but on the contrary, because of strengthening departmental and local area interests, it became the impetus for friction between expanded state interests, on the one hand, and departmental and local interests, on the other. It is very clear that, because lessors and contractors are appointed by departments and local areas, the prospects for promoting the leasing and contracting systems are bleak.

2. Reform practice shows that as long as we accept the enterprise as an independent producer of commodities, the enterprise's interests will be different from state interests and, thus, friction between state and enterprise interests is unavoidable. Through reform we can define the boundaries between state and enterprise interests, reduce friction between interests, and avoid the harmful consequences of this friction as much as possible. In actual operations, without clearly defined boundaries, state asset rights will become administrative rights forcibly allocated to enterprises. The positive significance of the contracting system lies in the fact that before ownership rights are made independent they are the first to create management rights that are not very strict. However, the contracting system is only a separation of administrative rights and management rights, essentially management rights restricted by administrative rights. The contracting system provides an opportunity for contractors to use the maneuvering room granted by the government and the market to improve enterprise management benefits, but because of the narrowness of thinking on separating rights, it never touches on the issue of jurisdiction of property rights, so it is difficult to avoid acting with a short-term focus. Thus, just as the entire economic system got to the threshold of a market economy, the contracting system became postcontracting enterprise behavior of "one eye on the government and one eye on the market."

3. Reform of separating ownership and management has not resolved the contradiction of limited increases in state investment and some social assets accumulation

being idle so that overall investment disposition cannot be optimized, which obstructs the reorganized disposition of other factors. China's current state-owned assets situation is this: Additions to the amount of investment used by the state for expanded reproduction is extremely limited, however, 200 billion yuan of fixed assets that are held at the lower levels of the market are idle. The potential demand of economic reform is to put to use assets and capital that were formerly idle, and make assets accumulation generate greater benefits. The amount used by the state for added investment is limited, in particular in regions and enterprises where management results are good and fixed assets are urgently needed for replacement and transformation, but more operating capital cannot be obtained so their development momentum is seriously held back. An effective method is to focus on fixed and liquid assets that have settled at the grassroots level of society. We had also envisioned strengthening the market system overall, but the idea of separating ownership and management is primarily either to reform the market surface layer or to increase essential elements, and does not involve reform of accumulation of essential elements and the deeper layers of the market. Without providing theoretical thinking for integrated overall circulation of all essential elements, that is, overall transfer of enterprise property rights, the problems of low efficiency and improper disposition of resources cannot be truly resolved, but external development using original assets accumulation can be expanded and this has special significance for a country with insufficient financial resources.

4. Under the current situation with regard to relationship of production materials assets, enterprises and employees are not concerned about multiplying production materials assets. The property rights relationship of producers of material resources and enterprises is confused, the degree of concern about assets is very low, and this is another potential threat to a stable economy. The people lack enthusiasm for investment, the money income of enterprise employees is invested unidirectionally in consumption, the consumption goals of employees and the accumulation goals pursued by government at all levels are in opposition, leading to inflation of both consumption and investment. When the greatest share of allocation was in pursuit of consumer goods, an antimarket trend took shape under the new situation, and increases in income, investment in consumption, and the settling at lower levels of an enormous amount of money are natural consequences of this trend.

The conclusions are:

1. If we do not reform the traditional system of state ownership, it will be difficult to make substantial progress in reforming the operating mechanism of the economy. We must conduct an in-depth discussion of the issue of whether the system of public ownership is a

goal or a technique, otherwise reform of the system of ownership may similarly fall into the trap of improvement.

2. Avoiding reform of the system of ownership is not wise. We must redeploy the state's rights to ownership of assets and reconstruct the system of state ownership.

3. Reform not only should remold enterprises, i.e., convert enterprises into autonomously managed commodity producers, but also should remold the main body of government behavior which is suited to the operation of a commodity economy. The latter may be a difficult and arduous task because the structure of vested rights and interests makes it necessary for reform to overcome the rigidity of vested rights and interests which is extremely difficult to overcome and this requires corresponding reform of the political system.

B. The highly un-self-conscious and systematic selection of the sequence of reform and the incompleteness of measures, especially not transcending the low level pattern of releasing rights and ceding interests at the suitable time, leads to friction between reforms themselves, which is a secondary cause of confusion in economic operations.

Reform of China's economic system has lacked a clear mainline. The earlier mode of "groping for rocks to cross the river" and the emergence and rash advance of various individual measures frequently created a single entity that both promoted and hindered reform.

1. The rationalization of enterprise structure in the broad sense can only be realized under forceful central regulation and control. However, because financial resources are highly dispersed, central financial resources in the main can only maintain the situation and are powerless to correct the developmental imbalance of enterprises whose degree of accumulation is greater and greater. Encouraging local areas to carry out comprehensive reform autonomously, granting preferential, lenient, and advanced reform policy to regions whose enterprise and scientific and technological foundation is relatively weak will create regional superiority. The pressure of regional competition, especially the pressure of preferential policy, will create important industrial regions with strong foundations, because preferential policies were unfair, temporarily became zones producing unwanted items, and major economic landslides even appeared. Under these circumstances, experimentation and promotion of reform regionally, especially combining autonomous reform and sharing of administrative authority, strengthened regional division and inequality so that it is difficult to promote sensible overall policies. Preferential policies "guided by region" and not "guided by enterprise" strengthened the irrationality of enterprise composition. Where forceful overall control has not yet been established, it was easy for local governments with expanded authority to overlook overall balance and unilaterally pursue rapid local economic

growth. It was also very easy in competing with other regions in rate of growth for vested interests created by division of administrative authority to form a powerful "regional development inertia effect."

2. Short-term benefits of ceding authority have delayed the long-term task of price reform. Serious irrationality of the pricing system continues to exist, which encourages imbalance in the industrial structure and errors in investment direction. For the enterprise, the lowest administrative organization in the traditional system, ceding authority and interests cannot change its position. Even if implementing the contract system leads to the appearance of a market economy, the relationship between the upper and lower echelons in the original system still exists and this has created unprecedented confusion in the current economic order. The results created by ceding authority from upper to lower echelons in the government's original administrative sequence was monopoly of the market in the areas in which the administrative power of the government's administrative departments was involved. The administrative interference and overlapping of market exchange created are bound to obstruct fair market competition and at the same time are a source of government corruption.

3. The essence of pricing reform is to create a competitive market. Large and medium-sized state-run enterprises, which are the main body of the national economy, have never really been placed at the center of reform, and the highly autonomous and active collective economies and township enterprises make large- and medium-sized state-run enterprises face increasingly severe pressure on supplies of resources. Market-oriented reforms carried out against this general background are primarily in privately owned and collective economy areas, thus, the market mechanisms created are bound to be fragmented and disorderly and generate friction of negative results in areas of the state-run economy.

Briefly, the overall function of the reform methods of separating rights and ceding authority are in substantial decline, the overall resource allocation as represented by the imbalance of industrial structure and imbalance of regional development is unsuitable, and the economic chaos represented by unfair allocation and corrupt phenomena have accumulated in the social system to an unbearable degree. When ceding authority, so that stable prosperity can appear in local economies, we have not transcended in a timely fashion the lower level pattern of ceding authority and interests and have followed the authority-ceding orientation of decreasing benefits for too long.

The conclusions are:

1. If we do not focus primarily on rationalization of basic market conditions, but implement a capricious "partial marketization" in some areas of the ownership system, some regions, some industries, and some enterprises, the competition so created is bound to be unfairly allocated

and will lead to serious imbalance of macroeconomic development and the vested interests introduced by "partial marketization," on the contrary, may seriously hinder rationalization of basic market conditions.

2. On the basis of the inherent demands of the industrialization process and the system of a planned commodity economy, we should create an effective, scientific central management, improve managerial ability for demand, supply, and structure, and through improved methods of control, improve control levels by category and strata. On the other hand, we should make enterprises progressively operate autonomously under the dual restrictions of multilevel means of central regulation and control and unified market mechanism.

3. We should reform pricing and the system of ownership synchronously. Individual charges forward harbor the danger of making systems that are already tortuous become even more so. Continued mutual coordination of pricing and enterprise reform can both weaken the hazards of pricing reform and be able gradually to form a new resource allocation system through market mechanisms under overall coordination, a model for the realization of the goal of system reform. Although coordinated reform is expanded, there are many difficulties and considerable risks in design and control, but such reform should be implemented sooner or later, either actively or passively, and the longer the delay, the greater the risks.

C. Weakening the rules of market activity is the third-level cause of disorder in economic activity.

With regard to the defects of the old system, in earlier reform a series of important measures focused on ceding rights and interests were promoted. But at the same time, we did not promptly promote a change for the better in goals. In income distribution, the market mechanism began to play a regulatory role at a superficial and marginal level. However, wherever the market mechanism played a role, identical conduct used double emphasis techniques to pursue double emphasis goals and demanded receipt of abundant income from marketized distribution without administrative interference, using income-creating opportunities unequally so that market distribution and administrative distribution temporarily had no covered intervals and a minority obtained extraordinarily high incomes.

In a normal market mechanism, the enterprise acts as an independent commodity producer, restrictions on demand are externally generated as determined by the market situation, are influenced by market supply and demand and the rules of competition, and are frequently easily weakened. It is very clear that due to the over-optimistic judgments made by reformers concerning market function and its form and lack of overall conceptions of the reform process, by wishfully placing their hopes in the excellent interlocking effect on the enterprise of being pushed into the market. Thus, when an enterprise is pushed into the market, on the one hand they cannot carry out the tasks of molding the market;

and on the other, a nonregulated market constantly provides an opportunity for escaping a difficult situation, and the enterprise metamorphoses from a dependent under the traditional system, into an investor under irregular market conditions, introducing many unstable elements into socio-economic activity. This gives profit-planning motives to enterprises purely through the structure of enterprise management mechanisms, but overlooks making the enterprise produce overall anticipation of risk through market standardization. This type of abnormal enterprise mechanism and the slanted market course is bound to permit enterprises to avoid competition, shift risk, and seek exorbitant profits. In an asymmetrical situation where the enterprise only anticipates profit optimization, but does not anticipate risk through constantly increasing prices to obtain enterprise profit, is the natural choice of the enterprise. China's market pricing is very chaotic, exhibiting a rigid pattern of rising by turns. The motivation of an enterprise's internal interests is strong and weak market restrictions cause an abnormal increase in the enterprise's profits. The rise in commodity sales competition becomes the fulcrum of enterprise benefit competition.

Excessive infiltration of interpersonal relations and overdevelopment of interpersonal organizations. Many companies that are active in the market rely mostly on nonstandard market organizations that are integrated by various "relationships" which gobble up state property and "capture" consumers. Laxness of administrative control, weak market mechanisms, and interpenetration of market forces and administrative forces provided a moment of achievement; market mechanisms are restricted by noneconomic rigidity with regard to readjustment of benefits so that market development is stopped within the scope of inviolable vested interests and forms only a limited commodity-money relationship. Since reform, market competition has basically developed within the scope of pre-existing status and actions. The competing parties each have backgrounds that transcend economics and are not market entities starting from the same starting line. Thus, in economic life, there appeared an administrative attraction that runs counter to market development, enterprises pushed toward the market through various "connections" once again returned to government departments in charge, further forming a metamorphosis from "official profiteering" so that abnormal economic activity flourishes.

Clearly, the causes leading to the operating situation of such market confusion lie in enterprises that enter the market having only the impulse for profit and do not have the restrictions of risk, and this asymmetrical market mechanism molds enterprises into abnormal market entities. The above-described irrational behavior of enterprises attracted to the market by profit puts the market in a slack and low-level competitive state.

The conclusions are:

1. We must spur prioritization of market form and standardization of market entity behavior. Through systematic market regulations, establish an integrated legal

system that safeguards clear jurisdiction of property rights and form a market economy based on the people; clarify market boundaries, strictly prohibit interpenetration of authority and market factors, and exclude irregular market organizations from market operations. Legislatively restrict the right to issue currency to strictly prevent excessive interference by random government factors in the market.

2. Divisive elements contained in the "dual-track system," prices of nonmonetary factor authority, and to a certain degree the character formed by the administrative power possessed by the primitive market that interferes with competition, and thereby destroyed the market order. Without sensible pricing, a commodity economy cannot have order. Thus, putting prices in order, more rapidly separating government and enterprises, and preventing market regimes becomes an urgent task.

PROVINCIAL

Guangdong Official Reviews Work To Promote International Trade

OW1305114489 Beijing Domestic Service
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[Talk by Fu Huichang, chairman of the Guangdong provincial chapter of the China Council for the Promotion of International Trade, "Open Up the Mountain Gate, Get Into the City Gate, and Stride Out of the National Gate—Exploring Ways for Promoting Guangdong's Economic Development," from the "International News and Current Events" program's special feature called "China's Economic Relations and Trade With Foreign Countries in the Past 4 Decades"]

[Text] Guangdong, in close proximity to Hong Kong and Macao where many overseas Chinese reside, has an edge in exchanges with foreign countries. Since the party Central Committee laid down the policy of reform and opening to the outside world, Guangdong's economic situation has undergone a tremendous change and gratifying achievements have been scored in its economic relations and trade with foreign countries. In recent years, the Guangdong Provincial Council for the Promotion of International Trade, in conjunction with the strategy for developing Guangdong's economy and with a view to promoting Guangdong's economic development, has provided fine-quality and high-efficiency services, mainly information services, to large numbers of its member enterprises by bringing into play a nongovernmental organization's advantages in maintaining extensive ties to and friendship with foreign countries and in having quick access to information and through setting up advance liaison work.

I wish to discuss three special characteristics of the work of the Guangdong Provincial Council for the Promotion of International Trade:

First, the provincial council has carried out a double-track service system for promoting Guangdong's foreign trade. Along with the in-depth implementation of China's reform and opening policy and rapid development of Guangdong's export-oriented economy, the provincial council's work of simply dealing with visitors would lag far behind the development of the new situation. In the course of practice, we have gradually developed a new way to advance the provincial economy, that is, the double-track service system. On the one hand, the council has explored markets, found customers, and arranged transactions in the circulation realm for authorized export and import enterprises. Since 1985 the council has organized 655 enterprises, with a total of more than 2,000 personnel, to take part in various international fairs, with transactions totaling \$670 million and 70 percent of contracts fulfilled, thus providing services for promoting Guangdong's foreign trade and increasing its foreign exchange earnings and enabling enterprises to better understand markets. On the other hand, the council has served production departments directly by exploring funds, technology, and fruits of scientific research for enterprises to raise production, thus increasing the exportation of high-quality, competitive commodities, as well as the foreign exchange earnings and stimulating the development of foreign trade. Since 1985, the council has ordered for production enterprises some 4,000 sets of equipment and products from international fairs abroad having a total value of \$25 million. The equipment, after being put into operation, has upgraded the technology of enterprises and improved the quality of products. They have filled in gaps in domestic production, boosted the enterprises' production capacity, and made their products more competitive. The council has also oriented our legal information work to the double-track service system, which has, in practice, shown tremendous potential.

Second, with a view toward strategic development, the council has helped mountainous areas cast off poverty and become prosperous, thus enabling them to open up the mountain gate, get into the city gate, and stride out of the national gate. Of Guangdong's total area, 70 percent is mountainous, 10 percent is water, and 20 percent is farmland. Mountains are spread over vast areas. With the coastal plain areas being pacesetters in economic development, a practical problem emerged; that is, how to make the mountainous areas' latent advantage in resources a real edge in developing a commodity economy. Proceeding from the overall interests of developing the provincial economy in line with the main points for economic arrangements of the mountainous areas made by the provincial party committee and the provincial government at a conference on the work in mountainous areas, we held a Guangdong provincial negotiations fair for developing economic relations and trade with the mountainous areas. The negotiations fair was attended by some 1,400 people from 39 mountainous and 5 semimountainous counties and 3,000 people from the coastal plain areas and central cities in Guangdong, as well as representatives from other provinces and foreign

businessmen. During the 7-day negotiations fair, 30,000 visitors signed 451 trade contracts, with transactions totaling some 90 million yuan, in addition to 469 letters of intent for various projects with a total value of 225 million yuan. The scale of the fair is unprecedented in Guangdong.

Comrade Bo Yibo wrote the following inscription for the fair: Guangdong is a national forerunner in opening to the outside world, invigorating the domestic economy, and reforming the urban economic structure. It is time now to invigorate the economy of Guangdong's mountainous areas and straighten out the circulation realm. This is a road leading to common prosperity of the advanced and backward regions.

The fair has promoted lateral economic ties between the mountainous and coastal plain areas, enabling the coastal plain areas to exploit the mountainous areas' advantages in resources and manpower, and the mountainous areas to obtain funds and technology from the developed areas. Since then, there has been a marked increase in the mountainous counties' industry of processing imported materials and compensation trade. We have also adopted various measures to pave the way for the mountainous areas to contact and cooperate with foreign countries. In this way, we have opened up the gate of the mountainous areas, enabling the economy to get into the city gate, and stride out of the national gate.

Third, we have regarded industrial and trade enterprises, village and town enterprises, and numerous small and medium-sized enterprises as the main targets that we should serve. With the development of the export-oriented economy, more and more enterprises in Guangdong have an urgent need to open international markets and to conduct economic activities and develop direct trade with foreign countries. In particular, the past few years have witnessed the rapid development of industrial and trade enterprises, village and town enterprises, and numerous small and medium-sized enterprises. These enterprises are known as a new force that has quickly come to the fore. However, it is rather hard for them to open international markets because of their lack of external contacts, inadequate information facilities, and shortage of qualified personnel. For this reason, we have all along regarded them as the main targets that we should serve. We have made every effort to seek cooperative partners for them, help them upgrade their products, and increase their capacity to meet international market demands. Specifically, we have done the following: 1) organized overseas visits in a planned way so that these enterprises may conduct market surveys and make friends abroad; 2) made arrangements on a priority basis for these enterprises to take part in exhibitions held outside our country and providing them with opportunities for selling their products, buying what they need, and conducting economic and trade cooperation abroad; 3) established an information service center, aimed mainly at serving these enterprises by providing them with information on advanced science and technology as

well as microeconomic and trade information at home and abroad and inside and outside the province, both periodically and on a nonscheduled basis.

To better serve our member enterprises and other enterprises and to establish a base for our council to carry out its activities, we have used foreign funds to set up a Guangzhou International Science and Technology Exhibition and Exchange Center. The facility, which consists of a hotel, an exhibition hall, and an international conference room, provides a place for us to carry out various activities. In line with Guangdong's economic development plan and according to the order of priority in importance and urgency, we have used this facility to hold a number of large-scale exhibitions on energy, transport, subways, packaging, environmental protection, medical care, and food-processing machinery, as well as lectures and report meetings on foreign trade, legal knowledge, and overseas markets. This has provided domestic enterprises with opportunities to learn and get acquainted with new foreign technologies and manufacturing processes and has assisted a rather large number of professional workers in exchanging technologies and information with experts in foreign countries. People have described such activities as inspections of foreign things without going abroad.

With China's progress in making reforms and opening to the outside world and the development of economic and trade activities in our province, the 32-year-old Guangdong Provincial Council for the Promotion of International Trade has strengthened its organization accordingly. It has set up 13 branches in the province and established liaison networks in Hong Kong, the United States, and West Germany. Now, an initial provincewide international trade promotion system has taken shape in Guangdong. With this has come a comprehensive, multifunctional civil service system covering foreign affairs, foreign economic relations, and foreign trade. Confronted with the new situation, our council is making ceaseless efforts to find new ways and means of service. We will continue to explore and open new service areas so as to provide more and better service for the purpose of promoting Guangdong's planned commodity economy and developing its external economic relations and foreign trade.

Tianjin's Li Ruihuan Inspects Companies, Worksite

Refrigerator, Compressor Companies
SK2306074789 Tianjin TIANJIN RIBAO
in Chinese 17 May 89 pp 1, 2

[Excerpts] On 16 May, Li Ruihuan, secretary of the municipal party committee and municipal mayor, went to the Haihe Refrigerator Compressor Company and the Refrigerator Industrial Company to inspect the work. After hearing the reports by responsible persons of these two companies, he pointed out that, fundamentally speaking, the problems of businesses are those regarding

productive forces, production levels, and production efficiency, which in the final analysis are problems concerning the enthusiasm of producers. He said: As has been proven in practice, it is an approved policy decision to import, master, and apply advanced foreign technology more rapidly, and restructure the industry through "changing the birds without changing the cages." It has a very important significance in the improvement of economic results, in increasing the supply of essential products, and in enhancing the industrial momentum and economic strength of our municipality. We should earnestly summarize the successful experiences of these two companies in importing technology and putting it into operation, and popularize it throughout the municipality. [passage omitted]

Li Ruihuan and other leaders visited modern production lines in every workshop to carefully inspect the entire process of production. Li Ruihuan cordially talked with the workers on duty, and also visited the workers' dining rooms to familiarize himself with the living conditions of the staff members and workers. He was very pleased to see the orderly management of these two enterprises, and the high spirits and the attentive operation of their staff members and workers. He said: These two companies have done their job very well, and the mental outlook of their staff members and workers is also good. Please convey our regards and gratitude to all the staff members and workers of these two companies. The stability of these companies and their staff members and workers is the foundation for the stability of the entire municipality. Today's stable situation in Tianjin cannot be separated from the hard work and concerted efforts of the vast number of staff members and workers throughout the municipality.

After hearing reports by responsible persons about these two companies, Li Ruihuan pointed out: The Haihe Refrigerator Compressor Company and the Refrigerator Industrial Company have lost no time in importing advanced foreign technology and complete sets of equipment, and in stepping up efforts to put them into operation. They are successful examples of our municipality's implementing the policy of opening to the outside world. Departments concerned should summarize their experiences in importing and mastering advanced foreign technology, and putting it into operation as soon as possible in order to further unify thinking, enhance confidence, and make technical transformation and industrial restructuring more successful.

He said: Over the past couple of years, we have earnestly paid attention to importing technology and putting technically transformed projects into operation, and have scored great achievements. However, the development has been uneven. It should be pointed out that putting technically transformed projects into operation itself means efficiency and economic results. If such projects are unable to go into operation in a timely manner, advanced products will become backward, find no market, and even make enterprises collapse. This is the

greatest loss. We should pay more attention to putting technically transformed projects into operation, and step up efforts to create better economic results and social benefit within a short period of time.

Li Ruihuan stressed: The problems of plants, in the final analysis, are problems concerning productive forces, production levels, and production efficiency. The masses of staff members and workers are masters of enterprises, and the main body of production. Either in deepening enterprise reform or in strengthening ideological and political work, the important thing is to fully arouse the enthusiasm of staff members and workers, and give play to it in a reasonable manner. This is the most fundamental task for enterprises. It should be admitted that some enterprises tend to neglect the status of workers as masters in the course of popularizing the direct responsibility system, and tend to neglect the ideological and political work in the process of distribution according to work. This is a problem we should pay attention to and solve. Leading persons at various levels should sincerely respect the status of workers as masters, wholeheartedly trust and rely on the masses, and conscientiously help staff members and workers in resolving their practical difficulties in production and life. Only in this way can we develop the initiative of the vast number of staff members and workers, and truly improve the prestige of leading persons. He urged the vast number of cadres to go deep into the masses, rely on the wisdom and efforts of the masses to overcome the difficulties on the way to advancement, and further consolidate and develop Tianjin's excellent situation.

Joining the inspection were Nie Bichu, Zhang Lichang, Li Huifen, Fang Fang, and Fang Fenyou, municipal leaders; and responsible persons of concerned departments.

Steel Tube Project
*SK2406042189 Tianjin TIANJIN RIBAO
in Chinese 18 May 89 p 2*

[Text] Li Ruihuan, secretary of the municipal party committee and municipal mayor, went to the worksite of the Tianjin large-scale seamless steel tube project to inspect the preparatory work for the early stage construction. He urged project constructors to enhance understanding, unify thinking, arouse spirits, work hard, do a good job in planning and designing, and organize and carry out construction meticulously, with the focus on key areas of the project, in order to ensure quality construction. Departments concerned throughout the municipality should work in close coordination and with concerted efforts to make this project Tianjin's best.

The Tianjin large-scale seamless steel tube project is a modern industrial enterprise equipped with complete sets of technology and equipment imported from abroad, whose major product is casing pipes. It is the largest industrial project of our municipality to date, and is also a major project for realizing the overall city plan for

moving industrial enterprises to the eastern part of the municipality. It has strategic significance in the development of the oil industry of our country. Meanwhile, it has a far-reaching significance in improving the economic structure of our municipality, increasing its reserve strength for sustained industrial development, and leading the development of other industries.

Li Ruihuan and other leading persons went to the major factory, which was making early preparations, and the living quarters to inspect preparations for the "three components of infrastructure and the leveling of ground." After hearing a report by the project's headquarters, he pointed out: "Construction of large-scale seamless steel tube plants is an urgent need in the national economy of our country, in particular the development of the oil industry. Ours is a large oil-producing country that, however, has relied on imports in the supply of casing pipes. To change this situation, the state decided to develop this project although it is in the period for economic adjustment. This not only has economic significance, but also strategic significance. Constructors of this project should fully understand the importance of this project and clearly understand their own responsibility in order to make a success of the early stage preparations." He urged: "Efforts should be stepped up to carry out planning and designing and to work out comprehensive arrangements for and give overall consideration to the entire project, with the focus on key areas. Attention should be paid to the crucial parts that restrict the overall situation, affect development, and decide on the construction period, and efforts should be concentrated on overcoming the difficulties in them. The responsibility system should be enforced conscientiously, and meticulous efforts should be made to achieve improvement continuously in order to ensure quality. Departments concerned should take the initiative in making contributions to the project, refrain from buck-passing, and win honor for the Tianjin people with actual deeds."

Joining the inspection were Nie Bichu, Zhang Lichang, Mao Changwu, and Li Zhendong, municipal leaders, and responsible persons of departments concerned.

FOREIGN TRADE, INVESTMENT

Strategic Levels of Development for Coastal Economy

40060523 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
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[Article by Xia Bing 1115 0393: "A Tentative Discussion of the Strategic Levels in the Economic Development of the Coastal Regions"]

[Text] Implementing an economic strategy for the development of the coastal regions, in such a way that this strategy is directed toward earning foreign exchange

through exports, and keyed to participation in the competition on international markets, that it will bring the advantages of the coastal region fully into play, allow these regions to expand into the world and to participate in the great exchanges and great competition of the international markets, and that it will in turn stimulate the economic development in the interior and accelerate the modernization of the nation, is of extremely important strategic significance. In order to enable a more realistic implementation of the economic development strategy for the coastal regions, this article attempts a simple exploration of the various problems in the coastal regions and of the different levels in their developmental strategy.

I. Economic Disparities Determine the Objective Need To Differentiate Between Different Levels in the Coastal Region

From south to north, the coastal region comprises parts or the whole of the 11 provinces, districts, and directly administered municipalities of Hainan, Guangxi, Guangdong, Fujian, Zhejiang, Jiangsu, Shanghai, Shandong, Hebei, Tianjin, and Liaoning. Because of their historical developments, geographical positions, economic foundations, the extent to which they have been opened up, and other differing conditions, there are great disparities between the various provinces, districts, and municipalities and within these entities themselves, and their development has been uneven.

The southern part of the coastal region (taking the Chang Jiang as borderline) has been ahead in time and more favored than the northern part, be it in the time, extent, or effectiveness of opening up, which then resulted in an objective disparity between the southern and the northern parts, between city and countryside, and between large and small enterprises.

On the one hand, the earlier time and the larger extent of opening up of the special economic zones of Guangdong and Fujian made it possible for them to reach a stage in their development that is on a competitive level with Asia's "four little dragons." A considerable proportion of Shenzhen's industry consists of foreign-invested enterprises, and 54 percent of Shenzhen's production is marketed abroad. It exceeds the 49 percent export ratio in the case of South Korea and is close to the 60 percent ratio of Singapore. But on the other hand, the mid-section of the coastal region has not yet made a good start in its externally oriented economy.

On the one hand, the old industrial bases of Shanghai, Tianjin, Guangzhou, and Dalian have attained a level that enables them to meet the challenges of the world's new technological revolution. Some achievements of Shanghai's high-tech industry are beginning to move into the world. On the other hand, many large and medium-sized cities have not yet freed themselves of the fetters of the traditional industrial economy and lack ability to use high technology.

On the one hand, many districts have made an excellent start with an externally oriented economy in which the city and township collective industries are main agents and labor-intensive products are the key items of production. On the other hand, many large and medium-sized urban enterprises still waver irresolutely in an inward-oriented economy, fight domestically over raw materials and markets, and still have to rely on state assistance for the foreign exchange which they need for certain imports from abroad.

The above-stated disparities not only manifest the objective character of levels in the economic development of the coastal regions, but also determine the necessity to start out from these objective levels when activating a developmental strategy for the coastal regions.

Delineating and defining the stratified nature of economic development in the coastal regions has its practical significance which must not be overlooked. First, it is beneficial for the recognition of different economic characteristics in the different areas, and is also beneficial for working out immediate and long-range developmental objectives for the externally oriented economies of the various areas of the region. Delineating the levels of economic development of the coastal regions is helpful in analyzing and understanding the regional economic peculiarities, an analysis which will yield reliable data for policy decisions on dividing up the overall objective and for formulating specific stratified strategic objectives.

Second, it will be beneficial for straightening out the relations between the various levels of the coastal regions and for coordinating the development of the externally oriented economies. The present state of affairs in the coastal regions is as follows: The externally oriented economy is running on the track of a vicious cycle; there is much irresponsible action, very serious duplication of engineering work and engineering projects, and duplication in import-export activities, which is mutually obstructive and lowers economic returns, whereas a clear delineation of the economic levels in the economies of the coastal regions could develop an externally oriented economy in an organized and planned way, in accordance with the capacity for absorption and assimilation at the different levels and with a concentration on key points of emphasis. This would avoid the problems of duplicative exports and indiscriminate development, enhance the sense of cooperation, and raise the level of intensified business operations.

Third, it would be beneficial for greater cohesion, to form a unified force against foreign competition. As far as the coastal regions are concerned, some localities try to develop externally oriented economies without having the necessary fundamental preconditions and are, furthermore, overanxious for quick results. They frequently disregard the interests of the whole, vie with each other in liberalizing their policies, and as a result bring about the following kind of situation: On the one hand, cities

and enterprises that are favorably placed for earlier development of externally oriented economies and capable of earning comparatively high profits in foreign exchange, are left powerless in the competition, while localities and enterprises that have gone ahead in liberalizing their trading policies, though successful through these favorable policies to attract some foreign capital, have been trading away the rice bowl of the national economy, without themselves getting the benefits from their various favorable positions. Clarification of the stratified nature of the regional economies will enable organizing externally oriented economic entities which according to their specific conditions, and on the principle of reciprocity and mutual benefit, will from top to bottom, level by level, spread and diffuse, and congeal the single forces to form an overall advantageous situation, enhance competitiveness, and bring about a change in the disadvantageous situation of each doing things in his own way.

II. Essential Framework for Developmental Levels in the Coastal Regions

The fundamental principles that one must be familiar with when delineating the developmental levels in the coastal region, primarily intent on establishing an externally oriented economy, concern the following: the extent of opening up, the economic foundation, the scientific and technological level, and the state of social progress. Based on these fundamental principles, and starting out from the objective disparities in the coastal region, it will be possible to analyze the developmental levels of the coastal region under the three aspects of macro-, medium, and micro-level.

1) The macro-level. This involves the coastal region as a whole. It manifests itself mainly in the following three levels:

The first level are the special economic zones, which mainly comprise the Shenzhen, Zhuhai, Shantou, and Xiamen special economic zones as well as the large special economic zone of Hainan Province. The actual position, the special policies that apply to them, and the historical experience of their opening to the outside world make them of special significance for the coastal region as well as for the whole nation, due to their progressive, exemplary, and pioneering character.

The "opened-up" cities are the second level. This level comprises over 30 large and medium cities distributed over the coastal region, not only the two centrally administered municipalities of Shanghai and Tianjin, but also the 5 cities that are separate plan entities, namely Guangzhou, Ningbo, Qingdao, Dalian, and Shenyang. It also comprises the county seats and key towns of Nanjing, Hangzhou, Fuzhou, Jinan, Shenyang, and Tangshan. This level is the industrial mainstay of the coastal region, and an area of highest concentration of high level science and technology of the whole country.

All other "opened-up" districts form the third level. This level has not only the advantage of material resources for exports that earn foreign exchange, and the advantage of traditional technologies, but also abundant manpower and a huge potential for the development of production of agricultural and labor-intensive products that can earn foreign exchange; it is the firm foundation for the coastal region economy.

2) The medium level. This refers to a certain district of the coastal region. The entire coastal region from south to north may be divided into the economic regions of the Zhujiang Delta centered around Guangzhou, the Chang Jiang Delta centered around Shanghai, Nanjing, and Hangzhou, the Huanghe Delta centered around Qingdao and Jinan, and the Bohai Gulf region centered around Tianjin and Dalian. Analyzing the medium level means analyzing the internal composition of the different economic zones, and the internal levels of the various economic regions are on the whole as follows:

Key cities are the first level. This mainly refers to the municipalities under direct central administration, county seats, and cities which are separate plan units. These key cities are in leading positions throughout the coastal region with regard to economic strength, technological foundation, and the level of their processing industries. They play the role of "leaders of the pack," not only because of their advantage of an abundant industrial base and advanced technologies, areas in which they have made substantial progress, but also because of the huge influence they diffuse in the economic development of the entire region.

The medium and small cities form the second level. This refers mainly to cities of less than 500,000 inhabitants (not including cities in the special zones) under the administrative control of counties, cities of county rank, and the many county seats. These cities constitute a sector that links city and countryside. On the one hand, they themselves have a certain industrial base, a certain technological advantage, and a certain developmental potential, and on the other hand, also the capacity for receiving and transferring; while absorbing and assimilating advanced technologies from the large cities, they are able to transfer technologies to township enterprises, to disseminate products, and to stimulate township enterprise development.

The districts of township societies form the third level. This level is essentially of the same character as the third level; it has a secondary industry (mainly township enterprises); it is capable of taking over advanced technologies from the cities and integrating them with advantageous local resources and materials, and to develop labor export in the form of labor-intensive products.

3) The micro-level. The micro-level is so named because of the form of enterprises concerned. These enterprises

are the most basic production units and economic entities; they are the cells in the development of the externally oriented economy in the coastal region. Its levels are:

The first level are the enterprises organized on the basis of the "three types of capital financing." These enterprises mainly absorb and utilize foreign capital and raw materials, and their markets, both for importing and exporting, are abroad. They are the highest level of enterprise formation in the development of the externally oriented economy, in that they can claim a high rate of achievement, are capable of taking advantage of opportunities, earn much foreign exchange, and are highly effective, be it in gathering international information, assimilating technologies, or efficient enterprise management.

Mainstay enterprises are the second level. In addition to large- and medium-sized enterprises of the cities, this level also comprises a small portion of city and township collective enterprises of a certain scope. The extent of this level is very large, its strength is quite substantial, and it is not only of an overwhelming superiority domestically, but also has an abundant potential for the development of an externally oriented economy.

City and township collective enterprises form the third level. It comprises the many collective enterprises in the cities as well as the many village, town, and township enterprises. They have the advantage of a large labor force of a certain quality and are the mainstay for the production of labor-intensive products.

III. Formulating Different Developmental Strategies by Starting Out From the Characteristics of the Different Levels

The overall developmental strategy for the coastal region is to gradually establish there an export guidance-type economic model. It means developing externally oriented economic undertakings by means of utilizing foreign capital and importing technologies. It means accelerating the development of the coastal region and even of the entire national economy by means of expanding export trade, participation in international competition, stimulating the technological transformation of enterprises, and promoting industrial restructuring.

Beyond any doubt, this strategy is the main blueprint for the development of the externally oriented economy in the coastal region. But in consideration of the fact that the coastal region is a large economic area with many levels, with much diversity, and many uneven aspects, it is necessary to start out from different realities of different levels in formulating different strategies for externally oriented economic developments. Achievement of the anticipated developmental result will only be possible by creatively breaking up the overall developmental strategy for the entire coastal region and having each portion take effect at each specific level.

According to prevailing conditions abroad for developing an externally oriented economy, and in view of the realities in China's coastal region, what is in general required is a capability to apply the fundamental principles of starting with lower grade and later proceeding to higher grade products, starting with key items and later going on to common items, and to appropriately handle what has to be handled as a high-grade, a foreign-related, or a domestic concern. On these fundamental principles, the choice has to be made among various different strategies.

First, strategy of utilizing advantages in labor-intensive operations.

The developmental strategy of the coastal region is mainly built up on the foundation of international opportunities created by the ongoing global economic restructuring. Data clearly indicate that in recent years, labor-intensive or semi-labor-intensive products to the value of \$30 to \$40 billion a year are detached by industries in the modern economies of such countries and territories as Japan, Western Europe, Taiwan, and Hong Kong and transferred to lesser developed countries and territories. Many developing countries and territories in the Asia-Pacific region are eager to have a try at these industries and have taken appropriate measures to take over these labor-intensive products and investments, which the developed countries are discarding.

The high concentration of population, abundance of manpower resources, and abundant production experiences in China's coastal region are beneficial for an increase and expansion of exports of labor-intensive products. The problem is now that workers and business managers are by far below the quality objectively demanded in the development of an externally oriented economy and in any improvement of the labor-intensive products. Obvious contradictions are apparent as between the level of traditional technologies and new trends in consumption, between backward methods of operations and quality standards for high grade products, between low efficiency of work processes and the characteristically short, equitable, and fast market changes. The former features are all detrimental to the development of the latter. Without breakthrough progress and improvements in these respects, it will be impossible to bring China's advantage of labor-intensive operations fully into play. It will not only make it impossible to improve our commodities and to earn foreign exchange, but will obstruct any developmental strategy for the coastal economy. It is therefore crucial and of great urgency to overcome the traditional concepts, improve the method of business operations, handle affairs according to international practices, and enhance the quality of all workers and managerial personnel, in order to bring the strategic advantages of the coastal region fully into play, enhance the quality and grading of products, and to strengthen the competitiveness of our labor-intensive industries and products in the international market.

Second, strategy of developing group formations.

The practice of global international competition proves that development of an externally oriented economy and conquering international markets depends to a large extent on power tactics. But "going it alone" actions, fighting it out singly in small-type operations, are tactics that frequently lack competitive strength. Even if successful in opening up and capturing a market, the success can hardly be sustained for the lack of sufficient strength, and such moves will ultimately end being squeezed out of the market by the superior strength of transnational corporations and conglomerates. It is therefore necessary, in implementing the strategy of an externally oriented economy, to change the scattered ways of operation where each does as he pleases, and to adopt a group-oriented strategy of business operations. The cities of the special zones and other large and medium cities should select large and medium enterprises as their mainstay, chose well-known, high quality articles as front line products, and combine the collective strength of their scientific research centers and medium and small city and township enterprises, possessing related technologies, similar techniques, favorable conditions, and large potential, to organize externally oriented conglomerates that combine the three elements of research, production, and business operations. They should work under one name, adopt one brand name for their products, so as make it possible for their products to break into the international market and firmly maintain a permanent foothold. Not only that, in accordance with the trend toward the international scope of the economy and toward a unification of production and market operations, and in view of the demand for high development and high degree of socialization of modernized productive forces, it is necessary to support the development of such entities of externally oriented economy as specially large conglomerates and transnational conglomerates, to enhance the ability to infiltrate and expand overseas markets. Enterprise conglomerates that enjoy the necessary suitable conditions may also establish branch factories abroad to take advantage of local raw materials and markets. This will not only make it possible to reduce costs, but also to successfully open up and keep overseas markets in certain specific countries and territories, to ensure our initiative in the international competition, and pursuing policy measures that are particularly adapted to backward countries or territories.

Third, strategy of achieving a breakthrough with highly advanced products.

Many knowledgeable persons believe that labor-intensive products, although still finding a certain market in the future competitive international market, will not be able to maintain a stable foothold for more than another 10 to 20 years at most. As a long-range target, the only ones that will really have developmental prospects and competitive strength, and that will effectively earn foreign exchange, will be industries with sophisticated technologies and the products of such industries. In recent years, many developed countries have made strenuous

efforts to restructure their industries; they have accordingly concentrated their financial and material strength on research and manufacture of high-grade, high-precision, and highly sophisticated products in new technology-intensive industries. We must, therefore, adopt a wider vision in our strategy for the development of the coastal region and must not neglect the new technologically sophisticated industries and their products. For this purpose, we must fully develop scientific research units, institutions of higher education, the technology-intensive strength of large and medium enterprises, and also develop high-grade, high-precision, and technologically highly sophisticated industries and products.

Strengthen the perception of a high-tech industry, accelerate the development of technology-intensive products. In the coastal regions, we must first of all tap the potential of the old enterprises, and have them develop along the new road of reliance on scientific and technological progress and of seeking higher earnings in foreign exchange from exports, have them gradually shift from a preponderance of the traditional to a preponderance of the modern, and shift from machinery-intensive to microcontrol-intensive operations. On this basis, we must build up a ring of high-grade, high-precision, and technologically sophisticated industries to serve as the foundation for the development of a technology-intensive industry, capable of earning foreign exchange.

Organize strength to tackle the key problems, form an organizational system of joint force. Pay attention to research and development of technologies that are related to the new industries, especially of applied science and technology, and go on from there to form an organizational system of high-tech research, manufacturing, and development that possesses leading scientific, technological, and industrial capabilities. For this purpose, we must overcome the present system of scattered operations, form an organizational system of joint strength, to enhance our strength to tackle key problems and to pursue further development, thus also to reduce the disparity between China's industries and those of the world's technology-intensive industries.

Promote linkage of science and enterprises, expand proportion of foreign exchange earnings. A conspicuous problem in China's new technological industry is the considerable gap between scientific research and enterprise operations, and between technological research and actual operations. In order to link scientific research with production, we must as much as possible, and on a very broad industrial scope, accelerate the dissemination and utilization of research results. At the same time, we must expand the proportion of high-tech trade and establish a system for comprehensive and diversified international cooperation and exchanges in scientific research, so as to meet the demand posed by the development of an externally oriented economy in the coastal region.

Through all these measures, we shall propel the externally oriented high-tech industry of the coastal region

onto a new stage of a developmental upswing, in order to change the situation in the coastal region from one of wavering indecisiveness at the level of technically low-grade industries and low-grade products.

IV. Attention to Effective Handling of Certain Relations Is Essential

The purpose of analyzing economic development levels in the coastal economy is to establish a strategy for the externally oriented economy of the coastal region on a more scientific and realistic basis, and not to deeply split apart the various districts and levels of the coastal region. Interaction and well coordinated development of the various levels in the coastal region requires that we pay attention to the proper handling of the following relations:

First Relationship: Mutual Permeation Between the Various Levels

On the chessboard of the coastal region's developmental strategy, and especially with regard to the international markets, all enterprises are equal, be they special zone cities, large cities, cities that are separate plan entities, or medium and small cities, or the numerous town and township social districts, or be they enterprises financed in the three possible forms, large and medium enterprises, or city and township collective enterprises. In the process of developing the externally oriented economy in the coastal region, they must, therefore, attach primary importance to the interests of the state and the nation, should mutually respect each other, mutually permeate each other, and mutually cooperate. The special zone cities and the enterprises, financed in the three possible forms, should, thanks to their own direct foreign related advantages, provide the other cities and other enterprises with economic and technical information about overseas enterprises and international markets. They should function as "windows" to the world, as examples to emulate, and as intermediaries in the expansion and spread of trade, so as to explore ways for the further development of the externally oriented economy in the coastal region. Large and medium cities and large and medium enterprises must each disseminate their own superior economic, science, and technological knowledge to counties, districts, townships, and to township enterprises. Sister-city and sister-county relationships may be established between the special zone cities, large cities, and the medium and small cities, also between economically well developed districts and backward districts, so that the whole will become like one game of chess. Districts and areas that are technologically weak and have a backward bases, but which have abundant natural resources, and districts and enterprises with substantial potential whose economy lacks development, must on their own initiative strengthen economic and technical cooperation with special zone cities, large and small cities, and large and medium enterprises. This will enable superiority in natural resources to be converted to

superiority in commodities, and from there on to superiority in foreign exchange earnings and the development of the externally oriented economy in a joint effort.

Second Relationship: Between Development of Industry and the Consolidation of Agriculture

Viewed under the aspect of economic development, there is no limit to the growth of the industrial economy; it could grow by several times and even several tens of times, even though the agricultural economy in comparison might remain stagnant and weak. Although this could happen, the fundamental position of the agricultural economy must under no circumstances be weakened the least bit. A sound development of the agricultural economy is not only important as providing the basic necessities of life for all people, including the workers in the city industries, but also because of its importance for the development of a labor-intensive industry and part of the technology-intensive industry. In the process of implementing the development strategy for the coastal region, the fundamental position of agriculture must not be ignored or weakened, and it would be even less permissible to sacrifice agriculture for the benefit of industrial development. On the contrary, it is on the foundation of industrial development, that input into agriculture must be increased, that mechanization of agriculture must be promoted, and that modernization and intensive farming practices must be increased. This is of necessity the only possible road for a prolonged and sound development of the coastal region.

Third Relationship: Between Speedy Economic Growth and Economic Returns

In an important policy decision the Central Committee has decreed "regulating the economic environment and rectifying economic order." An overall cooling down of the economy and its deceleration, as well as the imposition of macroeconomic control, are important aspects of "improving the economic environment and rectifying economic order," and the coastal regions must also unswervingly implement this overall policy.

However, conditions in the coastal region are, after all, different from those in the interior. Its basic character is attuned to an economic strategy of entering the great international economic circulation, and the core problems in the international market are speed and exerting a high yield of returns; this is what touches on the immediate interests of the entire country and its future prospects. In the coastal region, therefore, it is necessary that when implementing the policy of "improving the economic environment and rectifying the economic order," to start out from the objective realities of the various levels, with no arbitrary uniformity. Speaking of the entity as a whole, we must appropriately deal with the relationship between speed and returns. We must not relax in our demand for a speed which has a beneficial effect, is backed up by reserve strength, ensures good competitiveness, and a high rate of foreign exchange

earnings, and we must even accelerate the speed if required by international and national needs. However, if nothing is gained from speed, or if the effects of it are even negative ones, or if speed adversely affects reserve strength and does not contribute to competitiveness, then there must most certainly be some slowing down.

In concrete terms, first, speed that is of considerable benefit for industry and its products should be accelerated, but for industries and its products that have no developmental prospects, the economy must be cooled down and its speed reduced. If some technology-intensive industries with competitive strength and labor-intensive industries that have international markets must expand their production capacity, they should with great speed capture the international market, as otherwise a good opportunity might be lost.

Second, speed should be accelerated in the case of foreign-invested enterprises and for their development. Projects that exceed one's own actual investment capacity must be controlled and slowed down, and in some cases even resolutely stopped. For the importation of foreign capital we shall always have the great gate open. Cooperative projects for which contracts have been signed, but for which construction has not yet been started, must be carried out according to plan; we must not let down our foreign business partner. At the same time, foreign capital for certain specific purposes and Sino-foreign joint ventures must be energetically sought, but we should go slow on projects that rely completely on state and local investments, and the unproductive building of high-rises, auditoriums, hotels, and guest houses must be resolutely cut down.

Third, speed of development must be accelerated for districts that show favorable investment conditions and good prospects for opening up to the outside world. For commonly endowed districts, speed should be slowed down. There must not be any indiscriminate competition with each other for speedy development, but primary emphasis must be on consolidation of the presently extant industrial basis. Even in districts with favorable conditions, one must discriminate between what is of slight significance and what is important, and one must accordingly slow down or accelerate speed of development, must emphasize increasing large-scale operations, the benefits that could be derived from intensive business operations, and ought not to indiscriminately start up just any business, or engage in duplicative constructions.

Fourth Relationship: Between the Overall Situation and the Partial Local Situation

As far as the developmental strategy for the coastal region is concerned, the coastal area as a whole is one entity of superior strength, while every level of the coastal region has its own partial and local superiority. That means, the relationship between the strategy of each level and the strategy for the coastal region as a

whole is a relation between the partial and the whole. The partial has to submit to the whole, and the smaller level has to submit to the interests of the larger level. But at the same time, the whole has to take the interests of the partial into consideration, and the larger level has to take the interests of the smaller level into consideration. Each level must first of all clearly recognize this relationship, place itself into the right position, only then will it be possible to gain the correct guiding ideology.

In all specific dispositions and in dealing with actual interests, regional and partial interests that conflict with the interests of the coastal region or the entire state must submit to the interests of the whole. Inward-oriented economy that conflicts with externally oriented economy (excepting items needed for the people's production or livelihood) must submit to the externally oriented economy; nontechnology-intensive industries that conflict with technology-intensive industries must submit to the technology-intensive industries; if they conflict with enterprises that yield high returns, enterprises that yield low returns shall submit to the interests of those with high returns; if they vie with key projects for capital, raw materials, and markets, nonkey projects have to submit to key projects. Of course, submission does not mean intervention by adopting simple administrative means, but measures must be carried out through cooperation on the basis of equality and on a mutually beneficial basis. Such can, for instance, be an organic merger of a technology-intensive industry with a nontechnology-intensive industry, mutual permeation, a marriage-type linkage of the low-yield with the high-yield enterprise, cooperation on the basis of shareholdings, or slanted credits, regulation and control of tax income, or by any other economic effect and means. In this way, irrational competition between the different levels of the coastal region and the mutual exhaustion of energies can be avoided, and the interests of the whole can be ensured, while the entire interests of the externally oriented economy of the coastal region can be enhanced.

Fifth Relationship: Between the International Market and the Domestic Market

There is no doubt that the development strategy for the economy of the coastal region is mainly directed toward the world, to capture international markets. However, in this respect we are faced with two practical problems that must not be overlooked: One is that districts and enterprises which have prospects of finding markets, which are favorably placed to earn foreign exchange, and which have the capacity to export, have become reluctant to increase exports. The second is that districts and enterprises, although unfavorably placed to earn foreign exchange and temporarily without suitable export commodities, particularly some township enterprises, will frequently disregard their own actual incapability and export raw material-type products urgently needed by domestic enterprises and available in limited amounts and also products seriously in short supply on the domestic market. Their action will not only confuse the

import-export trade, but also increase the foreign exchange burden of the state. The main cause for these problems is the lack of an accurate guiding ideology concerning the proper attitudes toward the two markets. The first problem is due to the lower profit from exporting and earning foreign exchange as compared with domestic marketing; therefore their disinclination to export. We must say, this is a shortsighted small-producer perception of preference for secluded business operations. They only see the immediate opportunity for good sales on the domestic market, but disregard the coming satiating of the domestic market. They will by then possibly have lost the opportunity of foreign trade, when a shift will have to be made to foreign markets. Thus, they will have also disregarded the more remote dilemma of losing the domestic as well as the foreign market, and will have overlooked that orientation toward the international market may frequently mean temporarily suffering some disadvantage, but find it beneficial in the long run. The second problem is due to an impatience to achieve quick successes; irrational action of that kind has only regard for earning foreign exchange and making a profit, and disregards the interests of the state as a whole, an attitude which if allowed to persist will have enormous dire consequences.

Implementing the development strategy for the coastal region must therefore not be mere pursuit of a uniform externally oriented economy, but must also not leave favorable export conditions unused and miss good opportunities. We must therefore become fully familiar with and deal effectively with the relationship between the two markets. First, those districts and enterprises favorably placed may go ahead with adopting an externally oriented economy, giving priority to the international market and treating the domestic market as subsidiary. Districts and enterprises that for the time being do not possess the favorable conditions, but have a certain basis, may first give priority to the domestic market and treat the international market as subsidiary, while gradually creating conditions for a transition to the externally oriented economy. Those who are not in a position to develop an externally oriented economy should emphasize development and utilization of the domestic market, and only later, after they have acquired the facilities, may they again explore the international market. Second, industries and products that have export capability, that have an overseas market, and whose exports would also not adversely affect the domestic market, should most energetically organize exports, but products in short supply in China, or products that even have to be imported, must not be senselessly exported, but must first be made available to satisfy the domestic market, at least for the period that this is required. Third, manufactured goods, especially end products with a high yield of foreign exchange, must be exported in larger quantity, but semifinished products and primary products, especially raw materials of the nature of natural resources, must be less exported or not exported at all. This is the only way that will ensure that the coastal region will actively and appropriately open

up the international markets, while also truly and earnestly giving consideration to the domestic market.

Tianjin Pledges Protection for Foreigners
*HK1306110389 Beijing ZHONGGUO XINWEN SHE
 in Chinese 1051 GMT 12 Jun 89*

[Report: "Li Ruihuan Says that Tianjin Will Protect the Interests of Foreign Businessmen"]

[Text] Tianjin, 12 Jun (ZHONGGUO XINWEN SHE)—Li Ruihuan, CPC Central Committee Political Bureau member and mayor of Tianjin, told foreign businessmen: The general guiding principle of reform and opening up personally devised by Deng Xiaoping will never change and the interests of foreign investors in Tianjin will definitely be protected.

Li Ruihuan made the remarks when meeting with some foreign representatives in enterprises operating with three kinds of capital in Tianjin.

Li Ruihuan also said: The key task in the present period is to prevent turmoil and stabilize Tianjin so that the common people do not suffer from the turmoil. This also includes seeing that the interests of foreign businessmen in Tianjin are not affected.

Li Ruihuan told the foreign businessmen: Under such circumstances Tianjin has maintained a comparatively stable situation. Society is in good order, economic activities are normal, market supply is sufficient, and residents are calm. Many people from other places, including some foreign friends, have praised Tianjin, saying that it is an "island of peace."

Li Ruihuan offered an apology to friends from foreign countries, Hong Kong, Macao, and Taiwan for the trouble caused. He believed that those friends who had temporarily left Tianjin would come back some day.

Li Ruihuan revealed: Many foreign friends have remained in Tianjin and continued to cooperate with us. They fully understand and trust us. The vice president of the British 48-Group also sent a telex stating that the group would continue to strengthen its friendship and cooperation with Tianjin. Some enterprises and companies in Hong Kong also sent us cables saying that they would continue to provide Tianjin with loans. Mr Aki Ikami, advisor to the Sino-Japanese Petroleum Development Company, sent us a cable expressing his sympathy and regards. No working personnel from the company in Tianjin have left. Li Ruihuan expressed his appreciation and thanks to the company.

Li Ruihuan continued: Studying and solving major and fundamental problems in China is inseparable from reform and opening up. He stressed: Reform and opening up is not only an economic but also a political problem. The degree of democracy and freedom cannot be separated from economic foundation and the degree

of civilization and culture. The development of economic construction and the enhancement of civilization and culture will be determined by further reform and opening up.

He stressed: The guiding principle of reform and opening up will remain unchanged. The fundamental interests of the Chinese people lie in reform and opening up. No one can change such general trends of historical development.

Li Ruihuan pointed out: "We must broaden our vistas of the future. I hope the friends present will broaden their vision. We have always sincerely welcomed all of you to Tianjin to run various kinds of undertakings and we are willing to actively cooperate with you. In the future we will continue to protect our interests and provide you with convenience in various aspects."

Li Ruihuan's enthusiastic and frank speech was warmly applauded by friends from foreign countries, Hong Kong, Macao, and Taiwan. In their speeches some of the foreign businessmen said that they felt satisfied with the stable situation and good investment environment in Tianjin. They thanked the Tianjin Municipal Government for their efforts in protecting their interests. They also believed that China would continue its policy of reform and opening up. They stressed that they were willing to continue to make efforts to promote economic and technical cooperation between both sides. A foreign businessman said humorously: Since we have boarded the vast ship of Tianjin we must continue to cooperate with it.

Shanxi Strengthens Foreign Economic Ties
*OW2806050589 Beijing XINHUA in English
 0546 GMT 27 Jun 89*

[Text] Taiyuan, June 27 (XINHUA)—Shanxi Province in North China is to promote a number of major projects using foreign funds and it shows that the province remains open as always.

Wu Zirong, a provincial official in charge of foreign economic relations, said that despite the recent social unrest, Shanxi will stick to the open policy and take measures to expand co-operation with foreign countries.

He quoted a businessman from Hong Kong as saying, "China's political situation is stable. Shanxi has rich natural resources and Shanxi people are trustworthy, and I'm willing to continue my co-operation with them."

The province signed 45 contracts at a meeting on international economic and technological co-operation held in the provincial capital of Taiyuan from May 10 to 20; a quarter of them have already gone into operation.

Wu said the province will hold a working conference in the third quarter of the year to discuss the utilization of foreign funds and decide on a number of major projects,

mainly for development, processing and utilization of natural resources, for co-operation.

He said the meeting will also work out more favorable policies for overseas businessmen investing in Shanxi, as well as concrete measures to help the existing 48 overseas-funded enterprises overcome difficulties.

TRANSPORTATION

JINGJI GUANLI on Railway Management
HK2606103189 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 3, 1989 pp 14-16

[Article by Mu Ling 2606 6875, edited by He Li 6320 4539: "The Lack of Separation Between Government and Enterprises Fetters the Deepening and Improvement of Contracted Railway Management"]

[Text]

I

Last year, China's railways successively experienced four major passenger train accidents, which shocked the whole country. As the accidents occurred at a key moment when "contracted management" [da bao gan 1129 0545 1626] was being developed, it was inevitable that people began to reflect on "contracted management." Those who held negative views found a basis for their arguments, while those who held firm belief in the system ascribed all the new problems encountered by "contracted management" to external factors, and especially to pricing. Both sides still hold strongly to their own arguments. I dare not readily subscribe to either view, and feel that a simple negation or affirmation of "contracted management" is not indicative of a materialist viewpoint.

Railway transportation is the "vanguard" of the national economy and the railways should have leading investment and key equipment. However, for 30-plus years after the founding of the PRC, the "vanguard" did not enjoy "vanguard" treatment. If we take the capital construction investment for the railways as a proportion of total national investment as an example, during the First 5-Year Plan, the figure was 11.1 percent, while during the Sixth 5-Year Plan, it was 4.5 percent. If we take price rises of materials and engineering into account, the actual decline in the scale of construction was even greater. Year after year, no one denied the "vanguard" role of the railways, and yet no-one tried to change the non-"vanguard" treatment which the railways were receiving. The leading investment in the railways declined time and again. After the smashing of the "gang of four" state financial power was deficient, all areas needed development, which resulted in intensive investment in the railways being further affected. A group of people with insight finally realized that the state needed to make its policies more realistic rather than just making investment, as this was the only way that could be found to reform the railways. Thus, an economic

contract system for the entire railway system—"contracted management"—was finally initiated. As the system was one of "you want to contract" rather than one of "we want you to contract," the conditions were not favorable. From this time, over 3 million staff members and workers of the railways began an arduous course of "contracted management." Because of the rigorous contract conditions, the unexpected major price rises in the means of production, and changes in the external environment and conditions, in trying to fulfill the responsibilities of the contract plans, the railways faced the difficulty of having to meet moving prices with their own set prices and trying to meet high prices with their own low prices. The 3 million-plus staff members and workers of the railways had no option but to continually seek to tap potential, to cobble together equipment and staff as best they could and to work hard day after day in an effort to meet the continually escalating railway freight tasks. After 2 years of implementation, "contracted management" has become a cup of bitter wine for the Chinese railways.

II

The recognition of the problems with external conditions can in no way cover the problems which exist in the railways themselves. I believe that the lack of separation between government and enterprises in the railways management system has been a major factor in the difficulties suffered under "contracted management."

The lack of separation between government and enterprise in the railways management system has a long history. In a situation where the state had unified receipts and expenditure for the railways and the railways ate from the "big pot" of the state, even though there were contradictions, the railways could still accord with their functional demands. "Contracted management" changed the economic relationship between the state and the railways and the railways, as enterprises, began to have their own independent economic interests, and they unswervingly pursued those interests. According to the Marxist dialectical principle of the relationship between the base and the superstructure, the changes in the economic relationships required that there be corresponding changes in the railways management system and management organs. If there were not, the economic relationships would be obstructed and stifled. Practice has demonstrated that the lack of separation between government and enterprises in the railways management system has become a set of shackles obstructing the deepening and improvement of the railways "contracted management." The reasons are as follows:

1. The management system in which there is a lack of separation between government and enterprises has meant that the role of the Ministry of Railways is hazy, and this violates the basic spirit of the "Enterprise Law." The Ministry of Railways is the State Council organ which manages the railways and exercises the functions of a state organ. The Minister of Railways is a member of

the State Council and is also a government official who manages the railways. However, since the Ministry of Railways, representing the railways, implemented with the state an economic contract for the entire railways system, the Minister of Railways has naturally become the corporate representative of this super-large transport enterprise. The management system in which there is a lack of separation between government and enterprises has meant that the Ministry of Railways is both a government organ and an enterprise, while the Minister of Railways is both a government official and an enterprise corporate representative. The lack of separation between government and enterprise and this dual status has resulted in a hazy role for the Ministry of Railways and the Minister of Railways, producing friction and collision with the "Enterprise Law." This has led to a situation where no one can say with certainty which level of the railways system constitutes the enterprise, in the legal sense, as stipulated in the "Enterprise Law," or the leader at which level, constitutes, in the legal sense, the enterprise corporate representative as stipulated in the "Enterprise Law."

2. The structure in which there is a lack of separation between government and enterprise has meant that the powers and responsibilities of the Ministry of Railways are not clear.

This in turn has meant that the self-restraint mechanism has been awakened and the authority of state organs has been reduced. The haziness of roles has inevitably resulted in rights and responsibilities being unclear. The Minister of Railways and his co-workers both manage the railways as representatives of the state in their capacity as government officials, and also operate the railways in their capacity as corporate representatives of the enterprise. This has inevitably meant that they lose sight of one task while attending to the other, and in this way the whole undertaking is damaged. Since "contracted management" was instituted, the Ministry of Railways, as a state organ, has made an agreement with the state on the rules to be followed. Does this not clearly explain why the state, to some degree no longer sees the railways as state-managed railways, and explain the great weakening in the self-restraining mechanism of the Ministry of Railways? At the same time, the authority of the Ministry of Railways, as a state organ has, since the institution of "contracted management," greatly declined and local governments have had doubts about and even resisted the orders issued by the dual-status Ministry of Railways and those regulations it has laid down in cooperation with several ministries and commissions. This has left the Ministry of Railways in a dilemma. Because of the lack of separation between government and enterprises, the Ministry of Railways must take responsibility for management responsibilities and also take responsibility for operational responsibilities. Thus, regardless of what problems occur, public opinion always lays the blame of the Ministry of Railways. Although in the 2 years since the implementation of "contracted management," the economic results of

the railways have seen a great improvement, it has made a greater contribution than in the past, the rates have been at the lowest levels and the railway cadres have worked under heavy loads, the prestige of the railways has fallen to its lowest level and the understanding it has received from outside has declined to its lowest point.

3. The structure in which there is a lack of separation between government and enterprise has meant that it has been difficult to deepen the reform of the railways.

Seen in terms of the structural reform of the railways, for many years this has involved going round in circles by combining and then dividing management offices and sub-offices, and there was a lack of essential reform from top to bottom and new breakthroughs. One of the reasons for this was the management system in which there was no separation between government and enterprise. Like the Incantation of the Golden Hoop, this has caused people to not talk at all about the reform of the Ministry of Railways, they dare not discuss the matter and nothing gets changed. The reason this is so is that it would involve a redistribution of power and interests.

Seen in terms of economic reform, the changes in the railways have been far from thoroughgoing. When the Ministry of Railways is managing the subordinate enterprises, it generally relies on administrative measures and mandatory plans. Although the railways have entered into a contracted management agreement with the state, and they no longer eat from the "big pot" of the state, the situation whereby within the railways everyone eats from the "big pot" of the Ministry of Railways has not been basically changed. The difficulties in handing down power in railway departments, the deeply-ingrained old habits of managing things by department, the great "internal consumption" and the relatively poor treatment which the railway staff and workers receive in terms of welfare and benefits all combine to form problems in the reform which are "inveterate, major, and difficult." In the great tide by which the reforms were being deepened throughout the country, the railways took the lead in contracting for an entire industry, but now in terms of the pace of deepening reform, they lag far behind other industries. As to the reasons, I believe that all these problems have their roots in this current management structure.

4. The management structure in which there is a lack of separation between government and enterprise has meant that it has been difficult to change society's traditional ideas about the railways.

For many years, all sectors of society have seen the railways as a public facility for society run by the government, rather than as a transport enterprise operating for profit. Thus, everyone from the top levels to the bottom have felt that while it was alright for the prices of other things to rise, railway transport prices, like the prices of other life staples such as grain and oil, could not be raised. It was thought that as soon as railway transport

costs rose, it would stimulate price spirals in all the commodities in society and people's capacity to bear the price rises would crumble. However, everyone has overlooked one thing and that is that these prices which urgently require reform, like those of other products closely bound with the people, have huge government subsidies as a backup force. Even so, since the implementation of the contracted management, the railways have had to develop themselves and improve themselves. The benefits which have been produced under the current system have, to a large degree, resulted from cobbling together equipment, living off past achievements and reducing safety coefficients. The role of the railways in obstructing the development of the national economy has attracted the great concern of some people with insight. There are worries about the constant danger of major arteries becoming blocked, bringing disastrous consequences. The price scissors between rail transport and other forms of transport are becoming increasing wide, and today the price of rail transport is only one-tenth of road transport and one-sixtieth of air transport. The prices have basically been maintained at the low level of the 1950's. The cheap transport prices have exacerbated the hammering being suffered by the railways. Why is it that above-quota coal, iron and steel, which is produced outside the plans, can be subject to increased prices and negotiated prices, but transport outside the plans cannot be subject to increased prices? Why is it that, while electricity is in tight supply, electricity bonds can be issued, but that while railway transport is overstretched, it is not possible to issue railway bonds? The management system in which there is a lack of separation between government and enterprise has caused people's ideas to solidify. They are the "state railways"! They should be like this.

To sum up the above, the lack of separation between government and enterprises essentially means that there is a lack of distinction between government and enterprise functions. The result is that the state represents the enterprises and naturally this has not been appropriate for the state and the railways subsequent to the institution of "contracted management." Furthermore, the economic relationships within the railways has obstructed the development of the productive forces. Developing and improving "contracted management" is the orientation for our country's railways in deepening reform. I believe that, as a major coordinated reform project for improving and deepening "contracted management," there needs to be a structural reform of the Ministry of Railways, so that government and enterprise functions are separated. On the one hand there needs to be streamlining of the ministry organs, so that the Ministry of Railways becomes the state organ for managing the railways, and is better able to carry out macro-management, guidance and service. On the other hand, we need to take some sections from the present Ministry of Railways and turn them into companies which are

responsible for their own profits and losses, so that they truly become relatively independent economic entities in which rights, responsibilities and interests are unified. They will carry out the enterprise functions, so as to accord with reform and the development of the commodity economy. In order to accord with the demands of commodity circulation, the railways management system must carry out the above-mentioned reforms, so that there is opening up and enlivening. I believe that the new-form railway transport, capital construction and industrial management systems will be greatly beneficial to the deepening and improvement of "contracted management" and will be of benefit in meeting future challenges.

AGRICULTURE

Ramie Area, Output, Inventory

40060628c Beijing JINGJI CANKAO in Chinese
8 Jun 89 p 1

[Summary] At present, China's commercial inventory of ramie is about 200 million kilograms, and plant inventory is 75 million kilograms. In 1989 the area sown to ramie will exceed 3 million mu, and estimated output is 200 million kilograms.

Hunan Grain Output Up, Prices Down in May

40060628d Beijing JINGJI RIBAO in Chinese
19 Jun 89 p 1

[Summary] In April the market price for rice in Hunan Province averaged 1.38 yuan per kilogram; in May the price was 1.36 yuan. Grain prices in Hunan declined because spring grain output increased. Because Guangdong imported 200,000 tons of rice in March, grain prices declined from a range of 2.80 to 4 yuan per kilogram in September 1988 to about 2 yuan. In the first quarter of 1989, the number of pigs in stock was about 500,000, a decline of 2.1 percent from the same period in 1988, reducing the amount of grain needed for feed.

Jiangsu Short of Hog Procurement Funds

40060628e Beijing JINGJI RIBAO in Chinese
24 May 89 p 3

[Summary] Because banks have reduced credit, procurement departments in Jiangsu Province have had difficulty recovering loans; meat plants in Jiangsu owe procurement departments 50 million yuan. Because procurement funds are insufficient, IOU's issued in 1988 for hog purchases still have not been redeemed; and in the first quarter of 1989, many areas again issued IOU's to purchase hogs. At present, Jiangsu owes pig farmers more than 60 million yuan. In the past, Jiangsu transferred 100,000 to 200,000 tons of pork outside the province, but since the end of 1988, other hog-producing provinces have increased output, and Jiangsu has had difficulty transferring hogs.

Academic on Philosophy, Politics, Unity
HK0306090189 Beijing RENMIN RIBAO in Chinese
22 May 89 p 6

[Letter by Gong Yuzhi 7895 5148 0037 to Wang Yuanhua 3769 0337 0553: "Can Philosophical Differences Go Hand in Hand with Political Unity—a Discussion on Lenin's Criticism of Bogdanov"—first two paragraphs are RENMIN RIBAO introduction]

[Text] Lenin's purpose in writing "Materialism and Empirio-criticism" was to make a clear distinction between his own philosophical views and those of Bogdanov. Lenin held firmly to the view that philosophical differences can be separate from political viewpoints, thus avoiding oversimplifications in the course of complicated struggles.

Lenin suggested: Within a political alliance, philosophical differences are acceptable and can be preserved and debates can be initiated. Revolutionary causes require that this principle be adhered to.

Comrade Yuanhua,

Your article in RENMIN RIBAO, entitled "Theoretical Construction and Conceptual Renewal," (published on 10 February) has set me thinking. I would like to exchange views with you. However, preoccupied with trivial matters and because of the need to look some things up, I did not have the time to write this letter until today.

I agree with your vigorously expounded view that the basic tenets of Marxism must be constantly deepened and enriched with the development of practice. If one says that basic tenets cannot develop, does this mean that Marxism "basically" cannot develop? Therefore, as you say, the handling of "Marxism" in the way "pedantic scholars annotate classics" is utterly unacceptable.

You say that Lenin's chief purpose in introducing partisan ideas into philosophy was to oppose the political views of Bogdanov and others. We have two problems here. One is how to evaluate philosophical partisan ideas, and the other is whether Lenin's purpose in introducing partisan ideas into philosophy was indeed to oppose Bogdanov's political views. People now hold divergent views on the former problem. I have not examined them carefully. It seems that there is at least the problem of people tending to oversimplify things in their understanding and discussion of partisan philosophical ideas. Concerning the latter problem, I feel that the situation is rather complicated. At that time, Bogdanov's political views were Bolshevik views. In 1904, at the "Conference of 22 Bolsheviks," he was elected a member of the "Bolshevik Bureau of Committees"; subsequently, at the third (1905), fourth (1906), and fifth (1907) congresses, he was elected to the Central Committee of the Russian Social Democratic Workers' Party. Therefore, he and Lenin were members of the same political party and the same political faction.

Lenin's purpose in writing "Materialism and Empirio-criticism" was to make a clear distinction between his own philosophical views and those of Bogdanov. In addition, Lenin suggested that philosophical differences can be separate from political views. In philosophy, Lenin was in favor of Plekhanov's critical attitude toward the philosophy of Mach. However, his political views were against those of Plekhanov, a Menshevik. From his philosophical standpoint, Lenin was against the attitude of Bogdanov as a follower of the philosophy of Mach. However, in politics, he was willing to remain in alliance with the Bolshevik Bogdanov. Here we have a problem of the complicated relationship between divergent and identical political and philosophical views. In the past, we tended to oversimplify this problem, thinking that identical political views and divergent philosophical views are mutually exclusive. Is this one of the reasons why, in the past, we tended to overly politicize philosophical controversies?

On 25 February 1908, Lenin wrote a long letter to Gorkiy, telling him about the philosophical differences between himself and Bogdanov. My opinion is that this letter is very important and we can learn much from it. It is regrettable that in the past, because of the prevailing tendency to oversimplify the relationship between philosophy and politics, this letter did not receive the attention it should have received in this country. For example, this letter is not found in the four-volume *Selected Works of Lenin* which China compiled.

In his letter, Lenin told Gorkiy about the development of the philosophical differences among the Bolsheviks, saying that in the spring of 1904, he had told Bogdanov about his disagreement with his philosophical views. However, Lenin stressed: "In the summer and fall of 1904, Bogdanov and I reached complete agreement, as Bolsheviks, and formed the tacit bloc, which tacitly ruled out philosophy as a neutral field, that existed all through the revolution and enabled us, in that revolution, to carry out together the tactics of revolutionary Social-Democracy (equals Bolshevism), which, I am profoundly convinced, were the only correct tactics."

Later, because Bogdanov and others had published some works to propagandize their philosophical views, the philosophical differences among the Bolsheviks became increasingly acute. After reading these works, Lenin was "furiously indignant." In his letter, Lenin said: "To be sure, we ordinary Marxists are not well up in philosophy, but why insult us by serving this stuff up to us as the philosophy of Marxism!" Subsequently, therefore, he began working on his "Materialism and Empirio-criticism."

However, Lenin did not, just because of the acute philosophical differences, favor a political split. At that time, Lenin and Bogdanov were both on the editorial board of PROLETARY (which had three members), which represented Bolshevik views. In view of the fact that in translating and publishing Bogdanov's articles on Mach, NEUE ZEIT, a German journal, groundlessly said

that the philosophical differences between Plekhanov and Bogdanov had a tendency, among Russian Social-Democracy, to become a factional disagreement between the Mensheviks and the Bolsheviks, the three-member editorial board of PROLETARY deemed it necessary to issue the following statement: "Actually, this philosophical controversy is not a factional one and, in the opinion of the editorial board, should not be so; any attempt to represent these differences of opinion as factional is radically erroneous. Both factions contain adherents of the two philosophical trends."

The statement was drafted by Lenin. This means that Lenin continued to favor "considering philosophy a neutral field," in order to preserve the shared political tactics among the Bolsheviks.

In his letter, Lenin explained to Gorkiy: "I consider it necessary to give you my opinion quite frankly. Some sort of fight among the Bolsheviks on the question of philosophy I regard now as unavoidable. It would be stupid, however, to split on this. We formed a bloc in order to secure the adoption of definite tactics in the workers' party. We have been pursuing these tactics up to now without disagreement.

"To hinder the application of the tactics of revolutionary Social-Democracy in the workers' party for the sake of disputes on the question of materialism or Machism would be, in my opinion, unpardonable folly. We ought to fight over philosophy in such a way that PROLETARY and the Bolsheviks, as a faction of the party, would not be affected by it. And this is quite possible."

His principle of acknowledging and fighting for this possibility was indeed a wisely conceived guiding principle. Within a political alliance, philosophical differences can be accepted and even preserved, and debates can be initiated. Philosophical differences must not be allowed to destroy a political alliance. This is required by revolutionary causes.

Lenin held firm to this principle in systematically reviewing Bogdanov's philosophical views in his "Materialism and Empirio-criticism."

Of course, we know that the political alliance between Lenin and Bogdanov eventually split up. In June 1909, at an enlarged meeting of the editorial board of PROLETARY, Bogdanov was expelled from the Bolsheviks. He was expelled, not because of his philosophical views, but because he had become a leading "ultimatist," because of the manifest "lack of unanimity on principles and tactics between him and the Bolsheviks," because there had lately been actions on his part tending to "violate the organizational unity of the Bolshevik wing," and also because he had given "a negative answer to the question of whether he would abide by the decisions of the extended editorial board

of PROLETARY and carry them out." (See the text of the resolution adopted at this enlarged meeting of the editorial board of PROLETARY.)

That was what happened later. Let us now return to the letter Lenin wrote to Gorkiy in February 1908. Why was it necessary for Lenin to talk to Gorkiy about the philosophical differences among the Bolsheviks? The reason is that an important implication of Lenin's principle of "regarding philosophy as a neutral field" was that the philosophy of Bogdanov was not to be propagandized in PROLETARY, which was an official journal of the Bolsheviks, and that the Bolshevik faction, which represented the tactics and line of the revolutionary faction within the Russian Social Democratic Party, was not to be associated with empirio-criticism. At that time, Gorkiy's philosophical views were, in a way, related to those of Bogdanov, and Gorkiy had written an article on such philosophical views for PROLETARY. Lenin did not agree to publish the article. Therefore, he advised Gorkiy to rewrite his article and to place somewhere else everything that even indirectly bore on Bogdanov's philosophy, adding that he could set out in a series of articles for PROLETARY everything that was not connected with it.

What merits attention is that Lenin suggested that the bulk of articles written by Gorkiy were not connected with Bogdanov's philosophy. In addition, Lenin was not indiscriminately against the idea of Gorkiy publishing articles on Bogdanov's philosophy; he was against the idea of publishing such articles in PROLETARY. He said: "You have other media, thank God, besides PROLETARY."

What merits still more attention is the fact that Lenin said to Gorkiy: "I believe that an artist can glean much that is useful to him from philosophy of all kinds." "I absolutely agree with the view that in matters that concern the art of writing you are the best judge, and that in deriving this kind of view, both from your artistic experience and from philosophy, even if idealistic philosophy, you can arrive at conclusions that will be of tremendous benefit to the workers' party."

What an excellent passage! It not only shows the respect of a proletarian politician and a Marxist philosopher for artists and their artistic experience, but also represents a sober and realistic view of the relationship between art and philosophy. This view is so different from the oversimplified and vulgar view we have long been used to!

This letter is found in the *Collected Works of Lenin*, Vol 13 (old edition), pp 425-432. I have quoted extensively from it. This actually is quite unnecessary. You will enjoy reading the original letter.

Yours

My regards!

[signed] Gong Yuzhi

2 April